A Blueprint for New Beginnings

A Responsible Budget for America's Priorities

TABLE OF CONTENTS

TABLE OF CONTENTS—Continued

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone (202) 512–1800 Fax: (202) 512–2250
Mail: Stop SSOP, Washington, DC 20402–0001

ISBN 0–16–050683–2

I. PRESIDENT'S MESSAGE

I. PRESIDENT'S MESSAGE

To the Congress of the United States:

With a great sense of purpose, I present to the Congress my budget. It offers more than a plan for funding the Government for the next year; it offers a new vision for governing the Nation for a new generation.

For too long, politics in Washington has been divided between those who wanted big Government without regard to cost and those who wanted small Government without regard to need. Too often the result has been too few needs met at too high a cost. This budget offers a new approach—a different approach for an era that expects a Federal Government that is both active to promote opportunity and limited to preserve freedom.

Our new approach is compassionate:

It will revitalize our public schools by testing for achievement, rewarding schools that succeed, and giving more flexibility to parents of children in schools that persistently fail.

It will reinvigorate our civil society by putting Government on the side of faith-based and other local initiatives that work—that actually help Americans escape drugs, lives of crime, poverty, and despair.

It will meet our Nation's commitments to seniors. We will strengthen Social Security, modernize Medicare, and provide prescription drugs to low-income seniors.

This new approach is also responsible:

It will retire nearly $1 trillion in debt over the next four years. This will be the largest debt reduction ever achieved by any nation at any time. It achieves the maximum amount of debt reduction possible without payment of wasteful premiums. It will reduce the indebtedness of the United States, relative to our national income, to the lowest level since early in the 20th Century and to the lowest level of any of the largest industrial economies.

It will provide reasonable spending increases to meet needs while slowing the recent explosive growth that could threaten future prosperity. It moderates the growth of discretionary spending from the recent trend of more than six percent to four percent, while allowing Medicare and Social Security to grow to meet the Nation's commitments to its retirees.

It will deliver tax relief to everyone who pays income taxes, giving the most dramatic reductions to the least affluent taxpayers. It will also give our economy a timely second wind and reduce the tax burden—now at the highest level as a percentage of Gross Domestic Product since World War II.

Finally, this new approach begins to confront great challenges from which Government has too long flinched. Social Security as it now exists will provide future beneficiaries with the equivalent of a dismal two percent real rate of return on their investment, yet the system is headed for insolvency. Our new approach honors our commitment to Social Security by reserving every dollar of the Social Security payroll tax for Social Security, strengthening the system by making further necessary reform feasible.

Medicare as it exists does not adequately care for our seniors in many ways, including the lack of prescription drug coverage. Yet Medicare spending already exceeds Medicare taxes and premiums by $66 billion this year, and Medicare will spend $900 billion more than it takes in over the next 10 years. Reform is urgently needed. Our new approach will safeguard Medicare by ensuring that the resources for reform will be available.

New threats to our national security are proliferating. They demand a rethinking of our defense priorities, our force structure, and our military technology. This new approach begins the work of restoring our military, putting investments in our people first to recognize their importance to the military of the future.

It is not hard to see the difficulties that may lie ahead if we fail to act promptly. The economic outlook is uncertain. Unemployment is rising, and consumer confidence is falling. Excessive taxation is corroding our prosperity. Government spending has risen too quickly, while essential reforms, especially for our schools, have been neglected. And we have little time before the demographic challenge of Social Security and Medicare becomes a crisis.

We cannot afford to delay action to meet these challenges. And we will not. It will demand political courage to face these problems now, but I am convinced that we are prepared to work together to begin a new era of shared purposes and common principles. This budget begins the work of refining those purposes and those principles into policy—a compassionate, responsible, and courageous policy worthy of a compassionate, responsible, and courageous Nation.

GEORGE W. BUSH

February 28, 2001

II. BUDGET HIGHLIGHTS

II. BUDGET HIGHLIGHTS

A New Approach to Budgeting

Moderate Growth in Government and Fund National Priorities:

- Moderates recent rapid growth in spending, while funding national priorities, paying down the debt, and providing tax relief.
- Strengthens and reforms education, granting the Education Department the largest percentage spending increase of any Department (11.5 percent increase in 2002).
- Saves the entire Social Security surplus ($2.6 trillion) and commits to reforming the program.
- Spends every penny of Medicare tax and premium collections over next 10 years only on Medicare. Modernizes and reforms Medicare.
- Restores commitment to military personnel and begins transition to a 21st Century force structure.

Debt Reduction: Achieves historic levels of debt reduction, retiring the maximum amount of debt possible over 10 years ($2 trillion).

Tax Relief: Lets taxpayers keep roughly one-fourth of the surplus they produced ($1.6 trillion over 10 years).

By the Numbers:

- Allocates projected $5.6 trillion surplus over 10 years. Breakdown of surplus:
  —Saves all of Social Security surplus ($2.6 trillion) for Social Security.
  —Provides $1.6 trillion in tax relief over 10 years.
  —Creates an unprecedented $1.4 trillion reserve for additional needs, debt service, and contingencies.
- Produces a $231 billion total surplus in 2002.
- Reduces historically high income tax burden.
- Moderates recent explosive growth in discretionary spending to 4.0 percent growth in 2002, an increase of $26 billion over 2001.
- Moderates growth in spending by making reductions in one-time spending, unjustified programs, duplicative programs, and programs that have completed their mission in 2002.

A New Approach to Budgeting—Continued

Initiative Highlights:

- K–12 Education. Increases funding for elementary and secondary education by $1.9 billion in 2002 over 2001 funding, a 10-percent increase.
- Reading. Fully funds President's Reading First initiative at $900 million in 2002, more than tripling funding for reading.
- Medicare. Sets aside $153 billion over the next 10 years for Medicare modernization, including integration of prescription drug coverage and the Immediate Helping Hand program.
- National Institutes of Health (NIH). Continues commitment to double NIH, by providing a $2.8 billion increase for NIH, the largest annual funding increase in NIH's history.
- WIC. Funds the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) at 7.25 million individuals a month, maintaining current program level.
- Conservation. Provides the highest ever request for the Land and Water Conservation Fund - fully funding the program at $900 million.
- Energy Assistance. Nearly doubles the existing Weatherization Assistance Program providing an increase of $1.4 billion over 10 years.
- Community Health Centers. Launches a doubling of the number of people served by Community Health Centers by adding 1,200 new sites.
- Provides tax relief to all Americans who pay income tax.
- Reduces the marriage penalty.
- Ends the death tax.
- R&D tax credit. Permanently extends the research and development (R&D) tax credit.
- Tax incentives. Provides other tax incentives for education, farmers, the disabled, health care, the environment, and charitable purposes.
- National Defense. Provides a $14.2 billion increase in Department of Defense spending in 2002 to begin to arrest the decline in national security, including $1.4 billion for military compensation to improve quality of life and reenlistment and retention of military personnel, $2.6 billion for research and development for new technologies (including missile defense alternatives), and $400 million to improve housing for our military members and their families.
- International security. Improves embassy security overseas, adding $1.2 billion.

III. OVERVIEW OF THE PRESIDENT'S 10-YEAR BUDGET PLAN

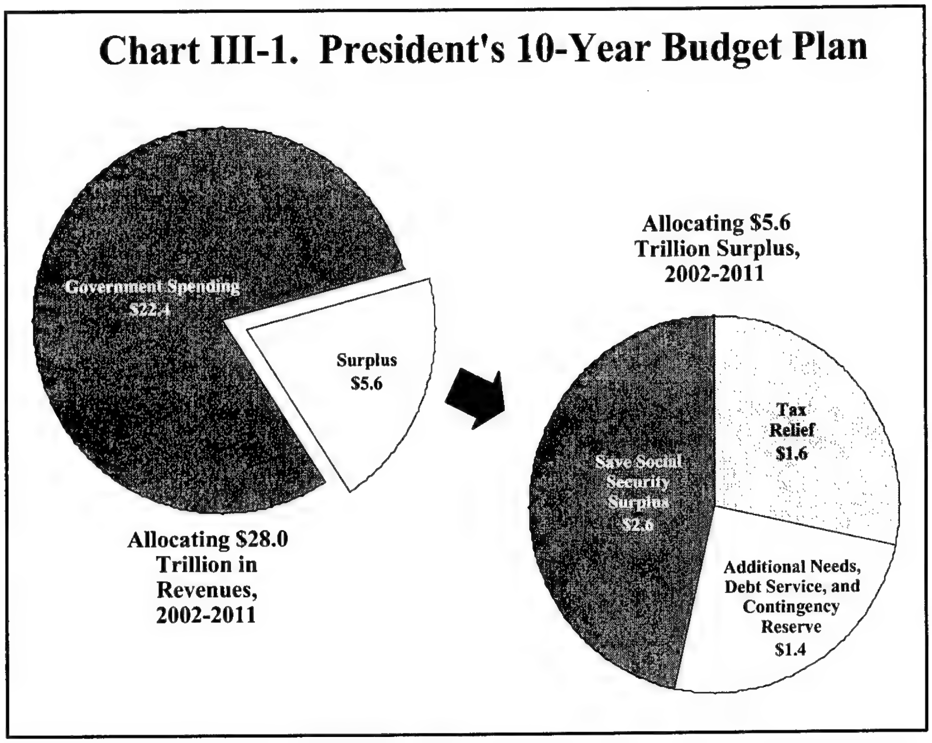


Chart III-1. President's 10-Year Budget Plan
Government Spending $22.4
Surplus $5.6
Allocating $28.0 Trillion in Revenues, 2002-2011
Allocating $5.6 Trillion Surplus, 2002-2011
Tax Relief $1.6
Save Social Security Surplus $2.6
Additional Needs, Debt Service, and Contingency Reserve $1.4

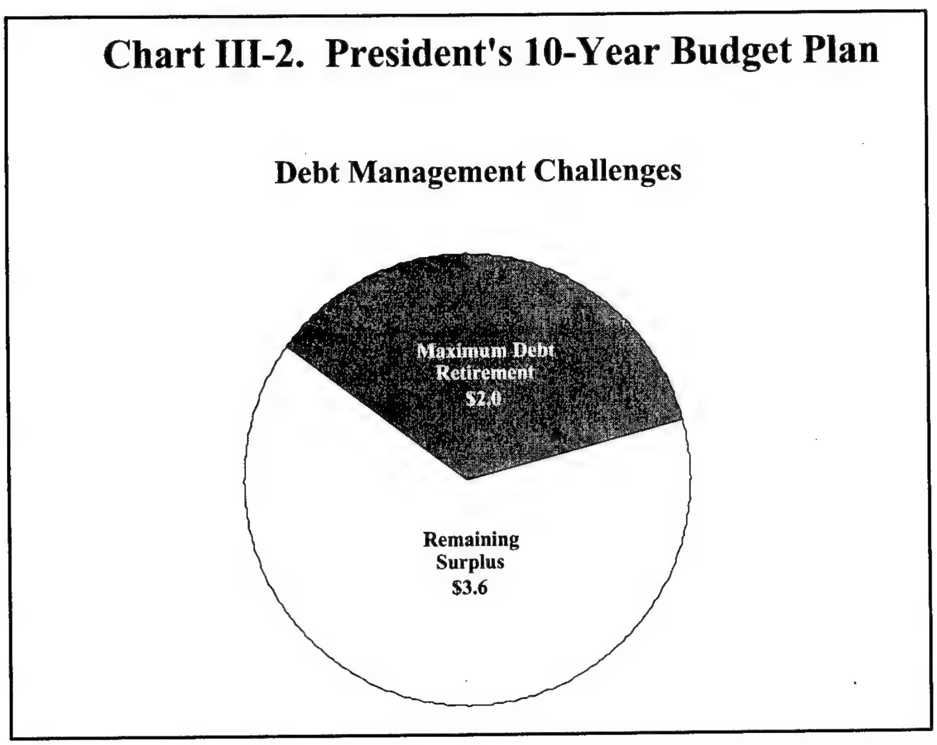


Chart III-2. President's 10-Year Budget Plan
Debt Management Challenges
Maximum Debt Retirement $2.0
Remaining Surplus $3.6

III. OVERVIEW OF THE PRESIDENT'S 10–YEAR BUDGET PLAN

Governing Principles

The President's budget plan is shaped around a clearly defined goal—the conviction that Government should play a role that is both activist and limited. The Government has an important role to play in fostering an environment in which all Americans have the opportunity to better themselves and their families. This is done by providing good educational opportunities for all youths; allowing families to keep more of their incomes and thus easing their way up the income ladder; keeping our commitments to the elderly and future generations; keeping the peace; and ensuring that communities have the ability to minister to their local needs.

However, Government must be careful not to overstep and to ensure that it keeps the commitments it makes. It must also take lessons from the private sector, finding ways to increase efficiency and customer satisfaction. Government has had difficulty doing this in the past. It is the Administration's objective to change this track record, by making the Government more accountable and ultimately raising citizens' confidence in the ability of Government to work in partnership with the private sector to raise standards of living for every American.

Allocating the Taxpayers' Dollars

Over the next 10 years, the Federal Government is projected to collect $28 trillion in revenues from American taxpayers. The President's Budget devotes roughly $22.4 trillion to extend the Government we have today, including the President's new initiatives.

This leaves a $5.6 trillion surplus. The President's Budget takes a cautious approach to allocating this staggering sum, starting by saving the entire Social Security surplus—nearly 50 percent of the total surplus—for Social Security and debt retirement. None of the Social Security surplus will be used to fund other spending initiatives or tax relief.

By devoting these revenues to debt retirement, the Nation will be able to pay off all the debt that can be redeemed—an historic $2 trillion reduction in debt over the next 10 years. The only remaining debt will be those securities with maturity dates beyond

---

Footnotes for Charts III–1 and III–2

Save Social Security Surplus: The entire Social Security surplus will be saved and set aside for Social Security and debt reduction.

Tax Relief: Includes creation of new 10-percent individual income tax bracket, reductions in existing individual income tax brackets, expansion of child tax credit, marriage penalty relief, death tax relief, charitable giving incentives, extension of R&E tax credit, and other provisions. (See Chapter 2 for additional details.)

Additional Needs, Debt Service, and Contingency Reserve: Includes $153 billion for Medicare reform, with a prescription drug benefit (see Chapter 5 for additional details), $0.4 trillion for debt service, and over $0.8 trillion in reserve funds that can be used for additional needs, contingency purposes, and further debt reduction if this became financially viable. (See Section III for additional details.)

Maximum Debt Retirement: At the end of 2001, there will be $3.2 trillion in publicly held debt. About $2.0 trillion can actually be retired over the next 10 years. Remaining debt will consist principally of bonds that have not have matured, including U.S. Savings Bonds (which many believe should be issued irrespective of fiscal position.) It will probably prove financially foolish for the Government to attempt to buy back non-matured bonds, as the remaining holders would demand exceptionally high compensation for early redemption. These bonds will mature over time, however, leaving the Nation on a glide path toward zero debt. (See Chapter 1 for additional details.)

2011. In all likelihood, American taxpayers would have to spend an additional $50 to $150 billion in bonus payments to bond holders to accelerate the repayment of those notes, a wasteful and senseless transaction. It makes more sense to allow the securities to mature naturally, leaving the Nation on a glide path to zero debt post 2011. (See Chart III–3.)

By 2011, Federal debt will have fallen to only seven percent of GDP—its lowest level in more than 80 years. Net interest payments on this debt will be less than 0.5 percent of GDP, less than one quarter of today's share and only three percent of the budget. This represents a great national achievement.

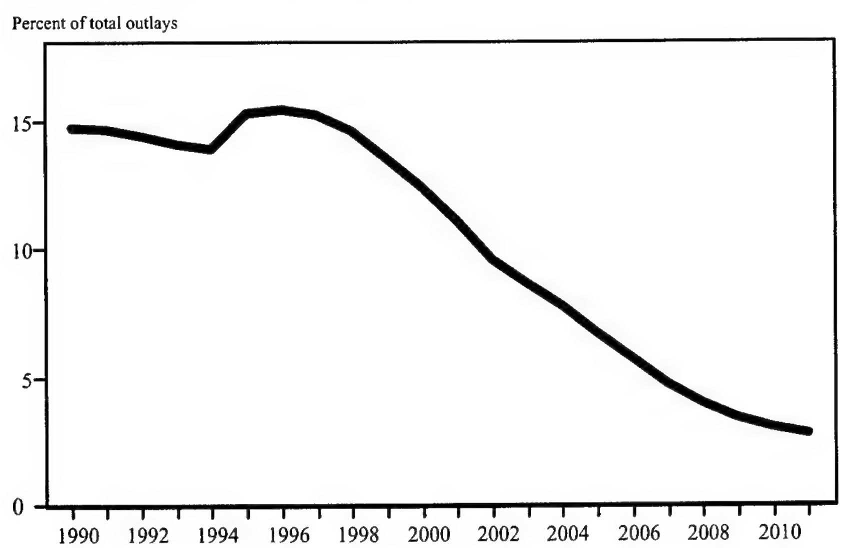
Even after setting aside Social Security and paying off the debt at these unprecedented rates, $3.0 trillion of the expected surplus remains. The President's Budget devotes these funds to the following priorities:

- Any additional debt reduction that proves financially practical.
- The Administration proposes to return $1.6 trillion of tax dollars to the taxpayers—or about six cents out of every dollar that will be collected between 2002 and 2011.
- After achieving these goals, roughly $1.4 trillion in projected surpluses will remain. The President proposes to use some of these funds—$153 billion over 10 years—for Medicare reform, $0.4 trillion for debt service, and the rest to establish a reserve for future priorities and unexpected contingencies.

  The Additional Needs and Contingency Reserve is ultimately an insurance policy. For example, budget surpluses may not be as large as currently projected, farm conditions could require additional resources for agriculture, and more money may be needed for national security requirements.

Of course, there are very large opportunities and contingencies that could *expand* the surpluses over these 10 years. These include Government reforms that would reduce future costs and, largest of all, the potential that

Chart III-3. The End of the Interest Burden
(Interest Costs Plunge as Share of Government)



revenue continues to outpace estimates as it has for the last several years.

If not left with taxpayers through lower taxes or committed to important new priorities, such as national defense or Social Security reform, remaining funds beyond those usable for debt retirement would have to be invested in private assets. The Administration believes that Government acquisition of the private economy is utterly unacceptable as a matter of principle. Further, the Administration agrees with Federal Reserve Board Chairman Alan Greenspan that Government investment of these uncommitted funds in private companies and securities would harm the economy's long run growth prospects.

In sum, there is ample room in the Administration's budget to pay off debt as far as possible, to reduce taxes for American families, to fund program priorities, and still leave roughly $1.0 trillion for Medicare modernization and to meet other programmatic and contingency needs as they arise.

In fact, more than 60 percent of the projected surplus is allocated to debt reduction or held in reserve for future needs. This is more than double the share allocated to tax relief. This is a farsighted and moderate budget, which uses today's good fiscal news as a means for shoring up the economic and fiscal environment that our children and grandchildren will inherit.

The President's Budget and the Medicare Trust Funds

The President's Budget reserves all Medicare funds for Medicare.

Recently, there has been much discussion about the relationship of the budget to Medicare's trust funds. Some would like to set aside the "surpluses" accruing in the Medicare Hospital Insurance (HI) trust fund from the rest of the budget and permanently require budget surpluses equal to these trust fund "surpluses."

In a sense this argument is moot, in that the President's proposed Additional Needs and Contingency Reserve far exceeds the "surpluses" in the HI trust fund over the period 2002 to 2011. Nonetheless, viewing Medicare HI's activities in isolation is flawed for several critical reasons.

First, the assertion that Medicare is running a "surplus" is misleading. Medicare actually has two trust funds, not one: the HI, or part A, trust fund, and the Supplementary Medical Insurance (SMI), or part B, trust fund.

A simple examination of both of these trust funds reveals there is no Medicare "surplus". The SMI trust fund receives substantial transfers annually from the general fund. From the perspective of the overall Federal budget, the SMI program is running a large deficit as premiums collected from beneficiaries cover only about 25 percent of program costs. The SMI deficit is projected to total $86 billion in 2002 and $1.171 trillion over the period 2002 to 2011. This deficit in SMI, combined with the HI "surpluses", reveals a Medicare shortfall of $52 billion in 2002 and $645 billion over the period 2002 to 2011. (See Table III–1.)

Second, the amount of debt retirement that is feasible is already far exceeded by projected Social Security surpluses. Adding a new requirement to run larger surpluses would only put us on a clearer path toward investing excess balances in the private economy, something that the Administration, Chairman Greenspan and most Americans oppose on both philosophical and economic grounds.

Third, the HI "surplus" itself is due in large part to a gimmick. In 1997, the HI trust fund was projected to be depleted by 2001. The imminent bankruptcy of the HI trust fund forced the Administration and Congress to make adjustments in Medicare to avoid catastrophe. Many of the changes made in the 1997 Balanced Budget Act were positive changes for Medicare.

But the previous Administration and Congress—in a transparent effort to further improve HI solvency—also shifted a large portion of home health spending out of the HI trust fund to the SMI trust fund. This shift had no economic consequence, nor did it change total Medicare spending. But it did have the intended effect of making the HI trust fund appear more "solvent."

Table III–1. Total Medicare Deficit

	2002 Estimate	Total 2002–2011
HI Income	181	2,410
HI Spending	147	1,884
HI "Surplus"	34	526
SMI Premiums	26	376
SMI Spending	112	1,547
SMI Deficit	–86	–1,171
Total Medicare Deficit	–52	–645

Note: On a strictly cash basis (excluding HI interest), Medicare spending would exceed taxes and premiums by $51 billion in 2000, $66 billion in 2001, and $894 billion over the period 2002 to 2011. This is the Medicare "financing gap" mentioned elsewhere in this document.

Approximately one-third of the projected HI "surplus" over the next 10 years is due to this gimmick.

Fourth, the President is committed to true Medicare modernization. A 21st Century Medicare program will catch up to rest of health care by recognizing that all modes of treatment—hospitalization, outpatient care, home care, and prescription medications—must be integrated if patients are to be well cared for. Medicare's current artificial division between hospital care and all other care is an antiquated relic reflecting the health system of the 1960s and before.

Finally, perpetuating the illusion that Medicare takes in more than it spends increases the risk that we will postpone urgently needed reform. The time for action is now, and we should not allow an arbitrary and misleading accounting concept to delude us into procrastination, as the political process is all too inclined to do.

Sources of Variability in Budget Estimates

The President's Budget recognizes that there are inherent uncertainties in making 10 year budget projections. In deference to this, it sets aside a large $1.0 trillion reserve, which can be tapped to cover priority and contingency needs starting with Medicare modernization. It is important to note, however, that the presence of this reserve does not mean that all the risks to surplus projections are to the downside. Indeed, if the past is any guide, this reserve fund could well increase in size as successive baseline estimates are made during the course of the year.

Baseline Issues

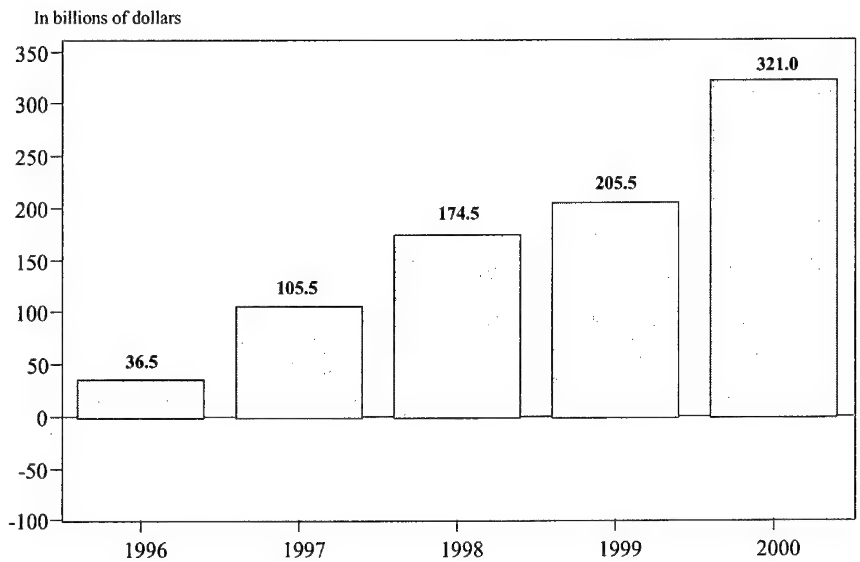
Budget projections are naturally subject to uncertainty, which increases as the projection period is lengthened. Policymakers need to be aware of this and plan accordingly. It is important to remember that there is uncertainty on both sides. Ultimately, the proper baseline assumptions used for constructing a budget plan are those that fairly balance upside and downside risks.

There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest "risk" to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates, which can be seen in a comparison of revenue projections made by the Administration and the Congressional Budget Office (CBO) in January 1995 with actual receipts. (See Chart III–4.)

Over the 1996–2000 period, revenues came in roughly $850 billion higher than originally forecast in January 1995. When combined with associated debt service savings, revenue underestimates contributed to roughly a $1 trillion underestimate of the five-year cumulative surplus.

This gusher of unexpected revenue was not principally a result of stronger economic

Chart III-4. Average Revenue Underestimate of OMB/CBO
Based on January 1995 Projections



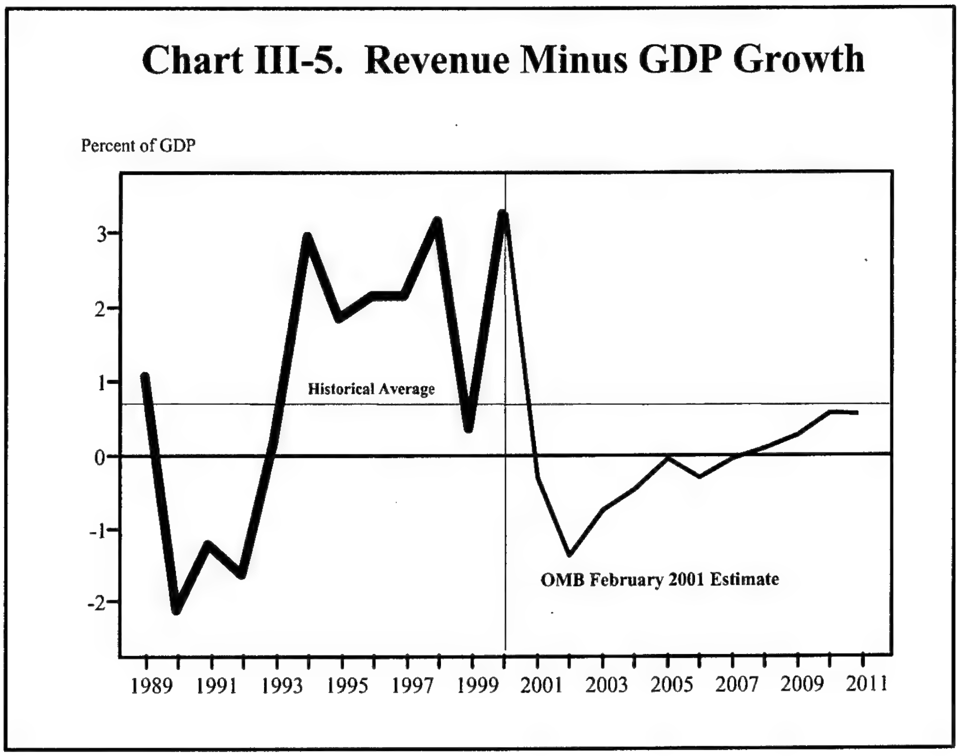
growth. The real driver of the revenue surprise is a current tax code that continues to extract an unexpectedly high percentage in taxes from each dollar that Americans earn. Annual revenue growth outran GDP growth by more than two percentage points in each of the last eight years, due to increased capital gains receipts, real bracket creep, growth in high-income taxes paid, and stronger receipts from retirement account conversions.

Some argue that while revenue growth consistently outstripped GDP growth in the past, this trend may not continue. It is important to realize that the Administration and CBO baseline revenue assumptions have just such caution built into them already. Both assume that revenue growth will *lag* GDP growth going forward for a protracted period. This is an extremely conservative view since annual revenue growth has historically exceeded GDP growth by 0.7 percent on average, over the last several decades through good and bad economies. (See Chart III–5.)

Realistically, one would expect revenues to grow at least slightly faster than the economy, absent tax changes, due to real bracket creep over time. (Major parts of the individual income tax code are indexed for inflation, not nominal wage growth. Thus, as taxpayers' real incomes rise, their effective tax rate rises due to a dilution of the impact of the standard deduction, exemption and credits and as some are forced into higher tax brackets.)

On this key variable, the Administration is even more cautious than CBO, expecting revenue growth to lag GDP growth throughout a multi-year period to a degree generally experienced only during recession. Capital gains are a main factor behind the deceleration in both the Administration's and CBO's revenue growth. Both expect capital gains realizations to post effectively no growth in nominal terms over the next 10 years and thus shrink markedly as a share of GDP—a very rare historical occurrence. This compares with nearly 30 percent average annual growth in realizations between 1995–1999.

Furthermore, the Administration assumes that the individual effective tax rate will edge lower, as the share of taxes paid



by high income taxpayers shrinks in coming years. In addition, the Administration is assuming economic forecasts that are generally more cautious than the Blue Chip consensus. Thus, there are convincing reasons to assume that higher revenues are more likely than lower revenues and a larger, not smaller, surplus lies ahead.

In economic parliance, there are significant "upside risks" to the surplus projections, in addition to the downside risks that tend to dominate public discourse.

Policy Issues

The Administration has crafted the policies in this budget blueprint to meet the President's key budget goals: achieving maximum debt retirement, preserving the Social Security surplus for Social Security, funding program priorities, and providing tax relief that is fair and sustains short- and long-term economic growth.

However, no budget can fully anticipate fiscal requirements a decade into the future. Unanticipated events here and abroad may require new commitments of resources that will challenge our commitment to live within the Administration's budget parameters.

That is why the Administration has taken the cautious approach of setting aside a roughly one trillion dollar reserve for priority needs, beginning with Medicare modernization and contingency purposes. While it believes that, in general, additional funding demands above inflation can be largely accommodated through offsetting program savings, it recognizes that this may not always be the case.

Examples of areas that could require the commitment of new resources in the future include the following:

- The President's strategic review of post-Cold War requirements for national defense may require the restructuring of current forces, the development of more versatile weapons systems including a Ballistic Missile Defense, and pruning the strategic weapons arsenal. New resources required to fund these changes could be offset in part by savings from commercialization and more efficient use of cur-

rent base infrastructure, but a net increase in defense spending is certainly possible.

- Poor weather, floods, or other disasters may require assistance to farmers above the levels in existing farm assistance programs, such as the Loan Deficiency Payment program.

- Efforts to buy back non-matured debt in the latter part of this decade seem very unlikely to be cost effective. However, if modest further buy-backs do prove affordable, the Federal Government might want to extend its Treasury buy-back program.

However, the existence of the priority and contingency reserve is not meant to be an open invitation to spend money. As the title suggests, these funds should be held in reserve for truly unforeseen needs or for programmatic reforms that are needed to shore up the long-term economic and fiscal outlook. As such, the Administration will emphasize the need to examine existing programs, looking for ways to redirect resources to their most productive end. Such examination is necessary, lest the size of Government increase without limit. Among the areas that offer the potential of freeing resources to address emerging needs are the following:

- Flattening the Federal hierarchy, reducing the number of managerial layers in the upper echelons of Government, in order to make Government more citizen-centered.

- Moving the Government toward performance-based contracting—focusing on results achieved, rather than reimbursing for costs—will increase the efficiency of the Federal contract dollar, potentially yielding savings for use elsewhere. It holds the potential of generating upwards of $70 billion in savings over 10 years.

- Making full use of the Federal Activities Inventory Reform Act to open Government functions to competition will encourage market-based pricing and innovation, freeing up more funds in agency budgets. This could generate more than $50 billion in savings over 10 years.

- Reducing erroneous payments by Federal agencies will ensure that taxpayer dollars are being used for their intended purpose and free up savings for other needs. A General Accounting Office study found $21 billion of improper payments alone in 1999 alone, more than half of which were in Medicare fee-for-service payments.

- Expanding electronic Government, including e-procurement, has the potential for savings from reduced transaction costs and greater competition. Private business has already reaped substantial savings from shifting procurement to the Internet. This should allow greater productivity gains in the public sector—indeed, if Government productivity grew only one tenth as fast as recent three percent gains in the private sector, the discretionary spending savings could exceed $100 billion over 10 years.

This budget, like any long-term plan, is subject to alteration due to unanticipated needs. By using cautious estimating assumptions, reserving the Social Security surplus for debt retirement and Social Security reform, and preserving an additional large reserve beyond the Social Security surplus, the Administration has made it easier to adjust the budget in the future to meet new requirements as they arise. And, of course, whatever portion of the reserve does not prove necessary for net new spending should never be collected at all, but should be left with American workers through lower taxes in the future.

IV. AN UNPRECEDENTED MOMENT IN HISTORY

IV. AN UNPRECEDENTED MOMENT IN HISTORY

> *Government does not create wealth. The entrepreneurial spirit of hard-working Americans creates wealth. But Government can help create an environment in which that spirit flourishes—an environment that promotes innovation, risk-taking, and equal opportunity.*
>
> Governor George W. Bush
> *Renewing America's Purpose*

The success of America's economy is a tribute to the creativity and risk-taking nature of its citizens. More than any other place on earth, its political and economic system gives free rein to the human zeal to create and build—and this freedom shapes who Americans are, no matter where they come from.

However, the greatest economic successes have occurred when the U.S. Government helped to create an environment in which entrepreneurial activity could flourish. There are notable examples of such successes. The reduction in tax and regulatory burdens in the late 1970s/early 1980s, the adoption of sound monetary policies, and enhanced trade helped to unleash the 1980s economic boom, while recent fiscal restraint and the ending of the Cold War were important catalysts behind the recent rise in productivity growth.

These successes are particularly noteworthy when placed in historical context. The last 17 years have included the two longest peacetime expansions in history, separated by one of the shallowest recessions. Over this period, the United States was in recession less than four percent of the time. This compares to the century and a quarter before 1982, when the U.S. economy languished in recession 35 percent of the time.

Recent Softening of the Economy

The advances made over the last two decades provide a solid foundation for further growth going forward, assuming the Nation continues to pursue growth-enhancing policies. However, even though the long-term picture looks bright, there are troubling signs in the near-term. The U.S. economy slowed noticeably, and suddenly, in the last quarter of 2000. Recent economic reports show unemployment rising, while growth in real disposable income is the slowest since 1996. The Federal Reserve has indicated its concern with two rapid-fire cuts in interest rates in January.

The President's proposed economic plan complements recent monetary action. His tax relief program acts as a near-term insurance policy against an unwanted deepening of the current slowdown and should help growth return more quickly to a robust pace. Tax relief will also help to boost the economy's underlying rate of long-term growth, particularly when coupled with the President's initiatives to enhance human capital and take action to ensure a brighter fiscal and national security outlook.

The President's Plan

While there are many needs and challenges facing the Nation, several stand out: the need to retire the Federal debt; provide tax relief; revitalize education; reform and modernize Social Security and Medicare; bring defense strategy and spending in line with the challenges of the next half-century; and support of community outreach efforts. The advent of large near-term projected surpluses provides a unique chance to address these needs. The President's plan takes advantage

of this great opportunity, laying out a clear agenda for meeting these needs.

- *The President's Budget commits to using today's surpluses to reduce the Federal Government's publicly held debt so that future generations are not shackled with the responsibility of paying for the current generation's overspending.* It commits to an historic amount of debt retirement and will retire $2 trillion in debt over the next 10 years. This is all the debt that can be retired without using taxpayer dollars to make bonus payments to investors in order to induce them to give up their bonds.
- *The President's Budget proposes a bold and fair tax relief plan that will reduce the inequities of the current tax code and help ensure that America remains prosperous.* This tax relief plan promotes the values that make the American economy second to none—access to the middle class, family, equal opportunity, and the entrepreneurial spirit. This plan will reduce taxes for everyone who pays income taxes, and it will encourage enterprise by lowering marginal tax rates. It will also ensure that higher income earners pay a larger share of taxes than they do now.
- *The Administration believes that every young American should have the opportunity to go to a good school and acquire the skills that will be needed to advance in today's high technology society.* Today, America's public schools serve some children well. But some schools clearly do not teach adequately, nurture consistently, or offer a fair start in life. Members of both parties and both Houses of Congress agree that Federal education dollars should be spent in ways that restore local control; encourage States to set high standards; hold schools accountable for improving student achievement, including by measuring achievement through frequent testing; aid in improving the quality of classroom instruction and school safety; and where a school persistently fails, assist parents in finding better options. Some education initiatives in this budget originated on one side of the political aisle, some on the other. All stress results over promises and accountability over process. Federal spending is a small part of America's total education spending. The President's Budget declares that we must not spend for spending's sake. This budget puts together an education program and budget that ensures that "no child is left behind."
- *The President is committed to shoring up Social Security's finances so that this program can continue to provide retirement security for all future retirees.* Today the Social Security program is in surplus. Beginning around 2015, beyond the Government's 10-year planning horizon, the program will begin to run a cash deficit. By 2037, the trust fund will be depleted and payroll taxes at that time will cover only 72 percent of promised benefits. Returns have declined to such a point that future retirees would do two or three times better if they invested their Social Security taxes in low risk securities. Unless Social Security is reformed, many young people of the following generation—Generation X—might not get back from Social Security what they put in. Social Security could be a losing proposition for them. Reform must make Social Security a sound program for tomorrow's retirees. The cost of saving Social Security goes up with every passing year, and our ability to improve returns on total contributions goes down. This moment will pass. With this budget, the Administration commits itself to working with both parties and both Houses of Congress in fixing Social Security now.
- *The President is committed to shoring up Medicare's finances as well, while providing better, more efficient coverage for our seniors.* Medicare is already spending more than it takes in. Medicare spending already exceeds taxes and premiums by $66 billion this year. That will grow to $132 billion in 2011. The antiquated division of the program into hospital and non-hospital pieces does not encourage efficient medical care. Medicare has not adapted to 21st Century medicine. Medicare is often slow to incorporate new technologies and methods of delivering health care. In addition, although medical care

increasingly relies on pharmaceuticals, it lacks prescription drug coverage. As in virtually all fields, technological and entrepreneurial innovation are among the keys to creating more value for the dollar in health care. Reform that works for patients must make room for such innovation. Reform should expand patients' choices—not restrict them. This budget initiates the process of Medicare modernization and delivers immediate relief on prescription drugs for our neediest seniors.

- *The Administration is committed to enhancing our national security.* Today our Nation faces no major foreign adversary. Our military is unquestionably the strongest on earth. And yet our forces are deployed around the world maintaining peace and keeping a watchful eye on our national interests with increasing frequency. These deployments have created some stress on our military. To boost the morale of these dedicated men and women, the President's Budget will, in addition to the well-deserved pay raises earned each year, include an additional $1.4 billion to ensure better compensation for our troops.

  Furthermore, we must develop a strategic vision for the 21st Century national security agenda that will inform research, development, and procurement decisions for the next generation of defense systems. This budget begins the process of force re-examination. And it commits America to developing, designing, and building a national missile defense as fast as possible. Starting now.

- *The President's plan supports community efforts to serve their fellow citizens.* Today, Federal funds are denied to many faith-based and other community-based programs that have succeeded in helping people curb criminal behavior, conquer addiction, strengthen families, and overcome poverty.

  Federal policy should become outcome-based, insisting on success and steering resources to the effective and to the inspired. We must heed the growing consensus across America that successful Government programs can work in fruitful partnership with community-serving and faith-based organizations, whether run by Methodists, Muslims, Mormons, or good people of no faith at all. We must observe the bedrock principles of pluralism, nondiscrimination, evenhandedness, and neutrality. With this budget, private and charitable groups, including religious ones, will have the fullest opportunity permitted by law to compete on a level playing field for Federal funds, so long as they achieve valid public purposes. With this budget, the Federal Government lines up with these armies of compassion.

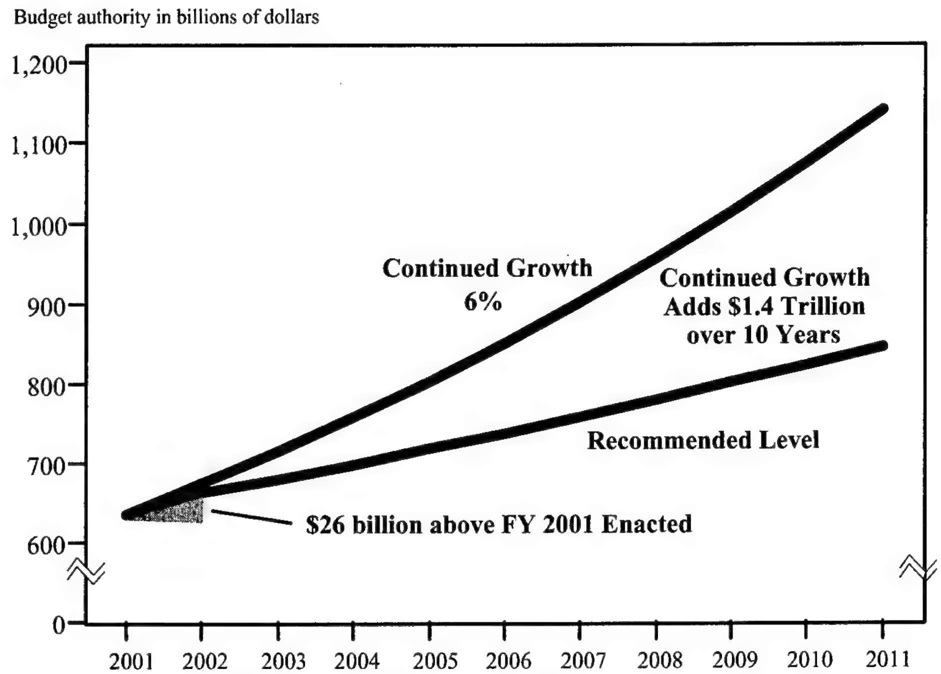
Moderate the Growth in Spending and Restore Budget Integrity

However, in order to ensure that Government resources are directed to the main challenges facing our Nation, we must ensure that we rein in excessive Government spending.

The arrival of budget surpluses in 1998 has led to an explosion in Federal Government spending. For the past three years, spending has exceeded the statutory limits that Congress and President Clinton wrote into law in 1997 by $199 billion. During this period, appropriated spending has grown by an average of six percent. While some may assert that these spending caps are unrealistic, they have only become unrealistic due to the spending spree, particularly in domestic programs, that has occurred over the past three years. If growth continued at a six percent pace going forward, an additional $1.4 trillion of the surplus would be consumed over 10 years—approximately the amount of the President's tax cut. (See Chart IV-1.) History has shown that—unlike tax cuts—spending increases, once made, are rarely reversed. This pattern cannot long continue without jeopardizing our Nation's long-term goals. Discretionary spending growth should be held to the inflation rate. This will mean redeploying resources away from programs that have achieved their goals or failed. It will also mean exercising restraint both in the Administration and in Congress.

We must also reshape the way that we conduct the Nation's fiscal affairs. The annual

Chart IV-1. Impact of Unconstrained Growth



Note: Six percent is average growth in budget authority over the past three years.

budget process increasingly has become a spectacle of missed deadlines, legislative pile-ups, cliffhanger finishes, and ill-considered last minute decisions. Gimmicks abound for disguising spending as an "emergency" or advancing the spending into the next year to avoid limits. Congressionally adopted overall spending limits have become hurdles to be cleared, not ceilings to be honored.

In addition to higher spending, budget surpluses have led to a dramatic increase in congressional earmarks. The result is that the Government is not only producing more spending, but more unjustified spending. During this past year, the explosion in spending was accompanied by an unprecedented 6,000 plus earmarks in appropriations bills.

A budget is not just about numbers. Far more it is about priorities—and integrity. One great test is whether a budget legitimately supports the initiatives it purports to advance. A budget not only says a lot about how much we will spend, but it will inevitably reveal how we do the people's business. In other words, it is time to restore accountability and responsibility to Federal budget making.

The President proposes to:

- End accounting sleights of hand;
- Eliminate unjustified, special-interest spending;
- Make the budget resolution a law that Congress and the President must live by;
- Extend the enforceable limits on spending that will soon expire;
- Prevent future Government shutdowns;
- Move to biennial budgeting and appropriations process; and
- Restore accountability and responsibility to Federal budget making.

The Challenges

Both parties in Congress and the Administration share a common purpose. All of us want America's children to receive an excellent and enriching education. All of us want to pay down the national debt. All of us want to save Social Security and modernize Medicare. All of us want to strengthen America's national security. All of us want to return a portion of the surplus to the American taxpayers.

A limited Government that does its job well and that trusts the rest to the energy, ingenuity, and decency of a free and creative people: this has been the American concept of Government for more than two centuries.

The agenda in this budget is not that of one party or one branch of Government but of the Nation. We live in an era of common purpose. More than ever Jefferson's reminder is true today—that among Americans every difference of opinion is not a difference of principle. We may—and should—debate how most effectively to pursue our goals, but we are agreed on which goals we will pursue. We may—and should—debate how to best get results, but we agree on the results that we want to achieve.

We can strengthen America's economy. We can reach out to communities and make our programs of compassion more effective. We can reduce the burden of Government on every American even as we revive the effectiveness of its service to all Americans. We can do the people's work with candor, in the open, and on time. These are the challenges before us.

V. MAJOR POLICY INITIATIVES

1. PAY DOWN THE FEDERAL DEBT

With the advent of surpluses, the United States has begun to make real progress in paying down its debt. During 1998–2000, debt held by the public fell from \$3.8 trillion to \$3.4 trillion—a \$363 billion drop. By the end of this year, more than \$200 billion in additional reduction is due to be achieved.

The President's plan will accelerate this trend to record rates by retiring an historic \$2 trillion in debt over the next 10 years. Under the President's budget, the national debt will be only seven percent of Gross Domestic Product (GDP) in 2011, its lowest share in more than 80 years. (See Chart 1–1.)

Indeed, the President's Budget pays down the debt so aggressively that it runs into an unusual problem—its annual surpluses begin to outstrip the amount of maturing debt starting in 2007. This means that the United States will be effectively unable to retire any more debt than what is assumed in the Administration's Budget over the next 10 years—the President achieves "maximum possible debt retirement" in his budget. (See Chart 1–2.)

The roughly \$1 trillion remaining debt in 2011 is viewed by markets as "non-retireable" or "non-redeemable." It consists of marketable bonds that will not have matured, savings bonds, and special bonds for State and local governments, among others. (See Table 1–1.)

Chart 1-1. Debt as a Share of GDP

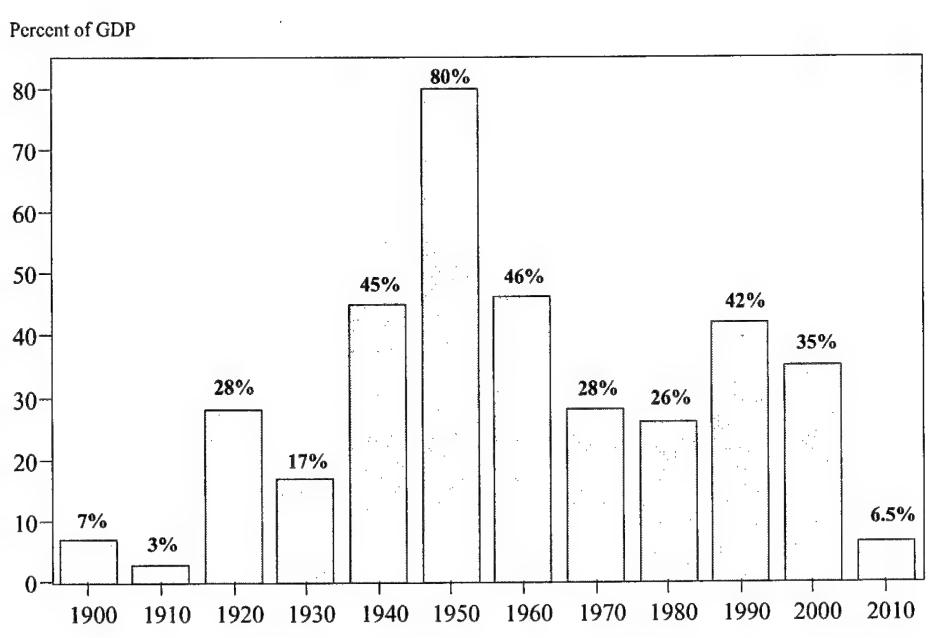
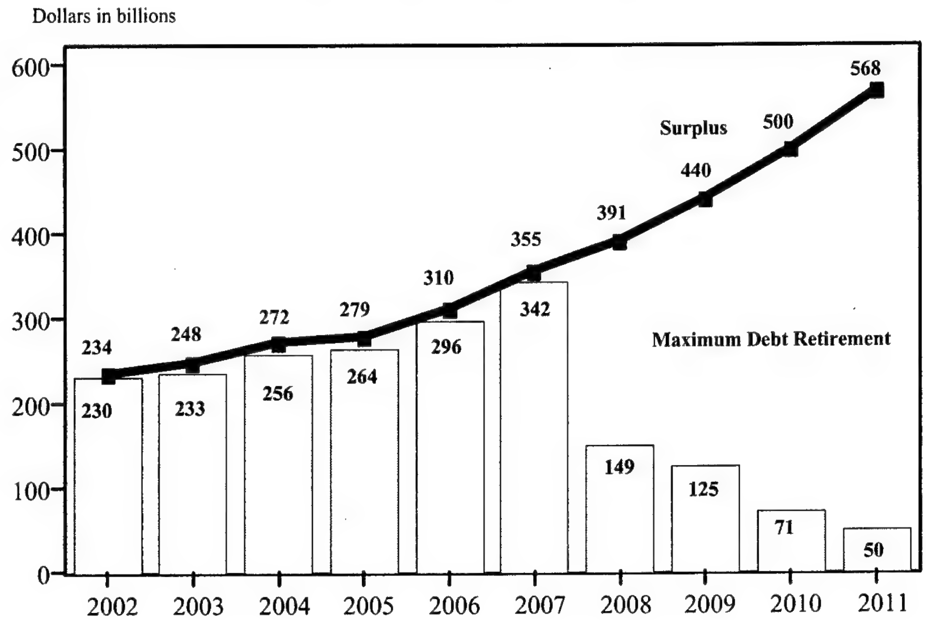


Chart 1-2. Policy Surpluses vs. Maximum Debt Retirement



Some may wonder why it is not possible to simply buy these debt issues back, thus allowing the United States to run its debt down to zero. In the short term, it is possible to buy back a small amount of non-matured marketable debt. The Treasury Department bought back $30 billion in calendar year 2000 and has committed to buying back another $18 billion in the first half of 2001. However, this strategy is not viable in the long-term or on a large scale. As the stock of Treasuries rapidly shrinks, it will dwindle to the point where the remaining holders of Treasury debt will not be willing to give up their securities prematurely without exorbitant penalty payments. In testimony before the Senate Budget Committee on January 25, 2001, Federal Reserve Chairman Greenspan noted that: "Inducing such holders, including foreign holders, to willingly offer to sell their securities prior to maturity could require paying premiums that far exceed any realistic value of retiring the debt before maturity."

OMB estimates that it would cost between $50–$150 billion in bonus payments to entice these holders to give up their bonds. It makes more sense to let this debt mature naturally, leaving the Nation on a glide path to zero debt after 2011.

In addition to these financial limitations, there are other reasons for expecting that a small amount of debt may remain over time. Some of the non-marketable debt issues have roles beyond just financing our Nation's fiscal position. For instance, many observers believe that the U.S. Savings Bond Program encourages household saving and should be preserved.

Table 1–1. Non-Retireable Debt
(In billions of dollars)

	2011 Estimate
Marketable Debt:	
Coupon Issues	
(non-matured 10 and 30 year bonds)	677
Inflation-Indexed Issues	
(non-matured 10 and 30 year bonds)	113
Non-Marketable Debt:	
Savings Bonds	170
State and Local Government Series	
(used to house bond issue money temporarily)	86
Bonds backing up emerging market Brady Bonds	
(mature between 2019–2023)	19
Bonds issued as part of the S and L clean-up	
(mature in 2019–2030)	30
Other	63
Total	**1,158**

Surpluses Will Lead to Government Purchases of Private Assets Absent Policy Changes

Absent policy changes, OMB and the Congressional Budget Office (CBO) assume that the Government will begin to accumulate so-called "excess cash balances" by the middle of this decade. (An excess balance occurs when surpluses exceed maturing debt. The excess funds are assumed to be held in cash—an impractical assumption.) By law, these balances can be invested only in collateralized bank deposits or held in accounts at the Federal Reserve. However, the sheer size of these balances would soon overwhelm the ability of these institutions to house this excess cash. As such, the Government would be forced to begin investing its "excess cash" in private assets. Such Government involvement in private financial markets is unacceptable to many, including the Administration.

Absent policy changes, the Government is projected to accumulate $3.5 trillion in excess cash balances by 2011. If this were all invested in equities, the Government could own 10 percent of the total stock market by that time. Even after the President's tax cut and spending priorities are addressed, the Government is still projected to have nearly $1.3 trillion in excess cash balances remaining in 2011. Given the amounts involved, the Government would be in a position to directly influence decisions of private industry.

Chairman Greenspan has warned against such Government involvement in private financial markets: "Having the Federal Government hold significant amounts of private assets would risk suboptimal performance by our capital markets, diminished economic efficiency, and lower overall standards of living than would be achieved otherwise."

He went on to recommend that the U.S. Government should consider cutting taxes and setting up a system of personal savings accounts within Social Security to pre-empt such a development. He stressed that such a strategy should begin early, well before the date of impending "excess cash" accumulation, so that drastic action is not needed in any one given year.

The Administration's Budget does just what Chairman Greenspan recommends. It continues to pay down a historic amount of debt at a record rate as long as practicable.

However, it also lays out an agenda for gradually reducing the on-budget surplus in order to minimize the risks of a build-up in excess cash and Government purchase of private assets in the future. Even with its tax cut, the Administration still projects that $1.3 trillion in excess cash will remain in 2011. This cash would be available for Social Security reform and other priorities.

Thus, the Administration's Budget shows that it is possible to effectively pay off the debt, deliver meaningful tax relief and address needed priorities, while preserving nearly a trillion dollars as protection against uncertainties. Such policies will help to shore up the Nation's long-run economic and fiscal outlook, and will allow the Nation to translate today's good news into good news for future generations as well.

2. PROVIDE TAX RELIEF FOR AMERICAN FAMILIES

Highlights of the President's Tax Plan

- Replaces the current marginal income tax rates of 15, 28, 31, 36, and 39.6 percent with a simplified rate structure of 10, 15, 25, and 33 percent.
- Doubles the child tax credit to $1,000 per child and applies the credit to the Alternative Minimum Tax (AMT).
- Reduces the marriage penalty by reinstating the 10 percent deduction for two-earner couples.
- Eliminates the death tax.
- Expands the charitable deduction to non-itemizers.
- Makes the Research and Experimentation (R&E) tax credit permanent.

The President's tax plan is fair and balanced. It addresses two important elements—the need to reduce inequities in the tax code and the need to foster economic growth.

The President's plan gives a tax cut to every American who pays income taxes—the typical family of four will be able to keep at least $1,600 more of their own money when the plan is fully effective. It increases tax fairness by giving the lowest income families the largest percent reduction.

The President's tax plan also recognizes the important role that constructive tax policy plays in generating high rates of long-term growth. Reductions in marginal tax rates encourage greater work effort and provide more inducement to save and invest in business enterprises. The tax plan should also help to shore up near-term growth, acting as an insurance policy against further weakening of the economy.

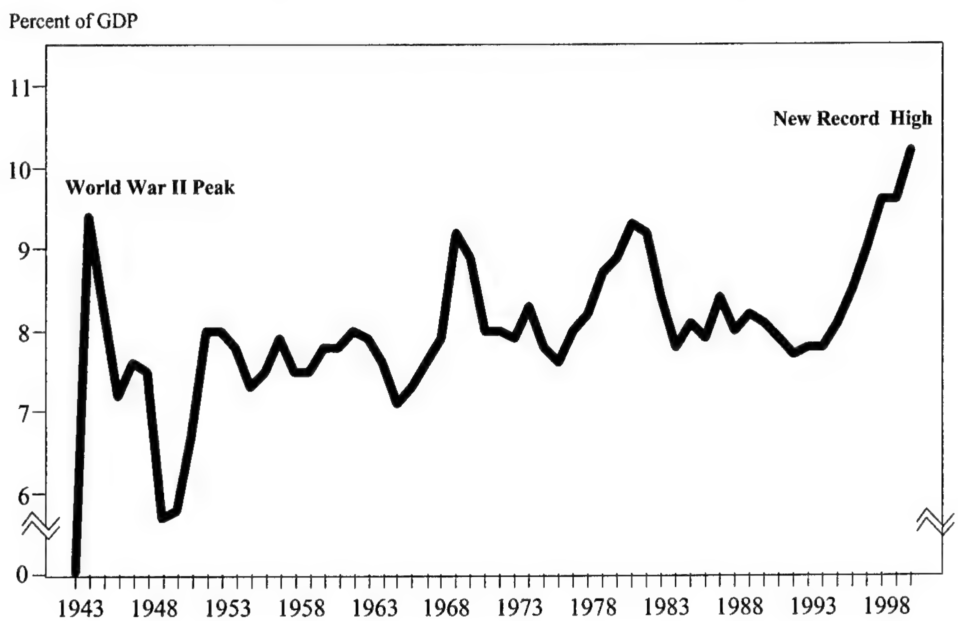
Rising Individual Tax Burdens

There is a great need for tax relief today. Total Federal revenues have surged as a share of Gross Domestic Product (GDP) since the mid-1990s. In fact, individual income taxes now take up the largest share of GDP on record—even above World War II levels. (See Chart 2–1.)

Recent gains in real wages account for roughly 20 percent of this individual income tax surge. Most of the individual tax code is indexed only for inflation. Thus, when wages gain in excess of inflation, taxpayers' effective tax rate rises. This results from a dilution in the effect of the standard deduction/exemptions/credits and from the fact that some individuals are bumped into higher tax brackets altogether. It is unfortunate that the reward for higher productivity is a higher effective tax rate.

Rising tax burdens limit families' ability to dedicate resources to their most pressing concerns. This is unfortunate since families are the best stewards of their resources, and the best judges of their own needs. Some families need more for education, some need more for child care, some need more for other things entirely—things that no Government or bureaucrat can possibly predict. The wise choice is to put families, not bureaucrats, in charge of these decisions.

Chart 2-1. Individual Income Taxes as a Share of GDP at Record High



The President's tax relief plan would do just that.

Providing Fair and Balanced Tax Relief

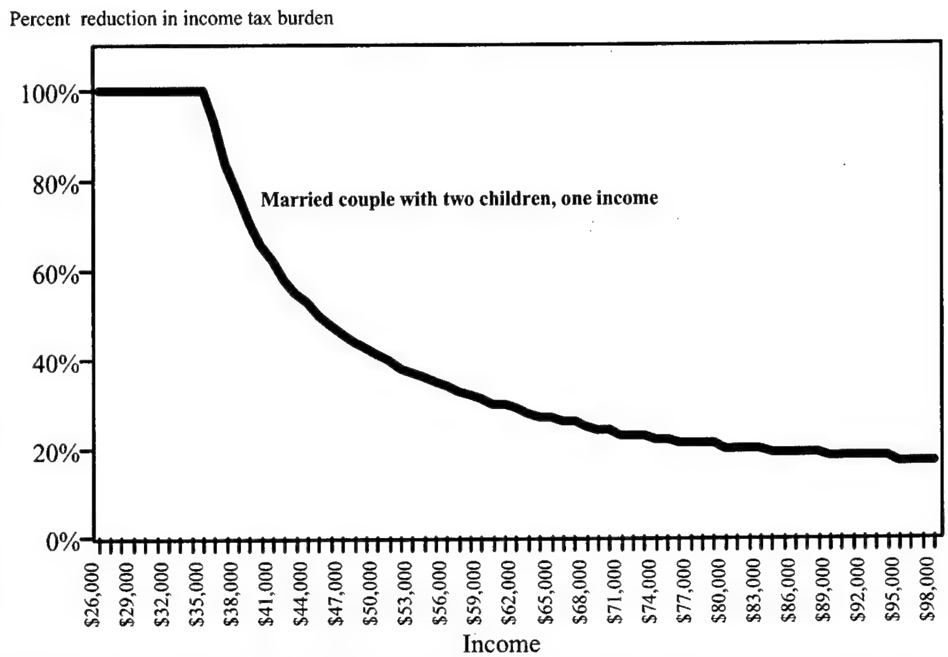
The President's tax plan provides relief for every income taxpayer; however, it gives the lowest income families the greatest percentage reduction. Indeed, higher income individuals will pay a higher share of income taxes after this plan takes effect. (See Chart 2–2.)

Lower marginal rates will help remove barriers that lower income families face as they try to enter the middle class. It is an unfortunate quirk of the present tax code that many low-income families are now facing higher marginal tax rates than wealthy individuals, due to the combined effect of phase-out of the Earned Income Credit and the Income and Payroll Tax. The President's plan will provide them with vital relief. For instance, the marginal Federal income tax rate for low-income families with two children would fall by over 40 percent and by nearly 50 percent for families with one child. This reduction stems from the establishment of the new 10-percent income tax bracket and the doubling of the child tax credit. (See Chart 2–3.)

The President's tax plan addresses other inequities in the present tax code as well. In particular, it substantially reduces the marriage penalty—a phenomenon whereby couples often have to pay more tax after they get married. It does so by reinstating the deduction for two-earner families which allows the lower-earning spouse to deduct 10 percent—up to \$3,000—of the first \$30,000 of income.

The President's plan allows all income taxpayers to deduct their charitable gifts, even if they do not itemize. Wealthier individuals have long had the ability to do so. This provision will help the families who give and will likely spur an increase in

Chart 2-2. President's Tax Cut Provides the Greatest Percentage Reduction for the Lowest Income Families



charitable giving to families in need. This is a win-win outcome.

Enhancing Prosperity

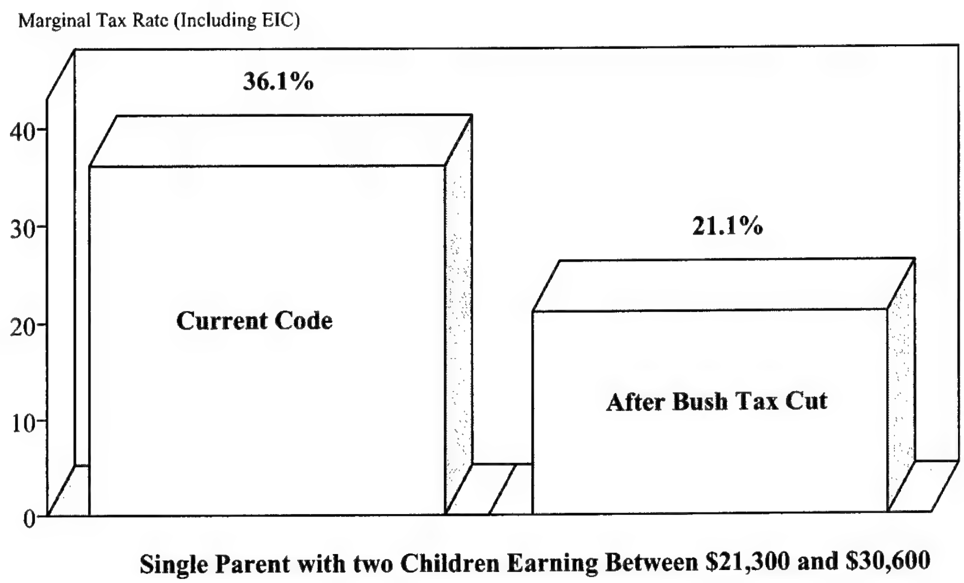
While individuals see the most direct benefit of tax relief in the form of higher take-home pay, tax policy also has an enormous effect on their lives by affecting the economic environment they live in. Well designed tax policy boosts the economy's sustainable long-term growth rate, which ultimately is the governor for how rapidly standards of living will rise over time.

Reduced tax burdens give workers a greater incentive to work harder. It gives entrepreneurs a greater incentive to reinvest in their businesses and in turn, to hire more workers. Cross-country studies have shown the direct link between lower tax burdens and higher rates of economic growth.

The marginal rate cuts contained in the President's plan will be a powerful force in helping to boost long-term growth. Bringing the top marginal rate down from 40 percent to 33 percent will help to reduce the "success tax" on entrepreneurs and lead to more investment. Government should not penalize success. The plan will give over 20 million owners of small business—sole proprietorships, S corporations and partnerships—a tax cut that will increase cash flow and allow them to add jobs.

The President's commitment to eliminating the death tax will also boost risk-taking and wealth creation. The present system is unfair—it taxes income that was already taxed when it was earned and makes it difficult for many families to pass on their business or farm to the next generation. The death tax is wrong both from an equity and economic perspective. Elimination of the death tax will help family businesses and give seniors renewed incentive to save for their children.

Chart 2-3. Administration Tax Cut Lowers Marginal Tax Rates for Families on the Outskirts of Poverty



Note: Marginal tax rate excludes FICA and State income taxes.

The President's tax plan also supports a permanent extension of the Research and Experimentation (R&E) Credit. This credit supports the type of technological developments that have fuelled the recent boom in productivity growth. By making the credit permanent, the President will give firms the incentive to undertake long-term research projects that could well provide the next round of technological breakthroughs for future generations.

Planning Responsibly for the Future

The President's tax plan is fiscally responsible in addition to being pro-growth and fair. It accounts for roughly one quarter of the projected 10-year budget surplus and only six percent of total projected tax receipts over this period. Indeed, the President devotes more than twice as much of the surplus for debt reduction and for stocking a reserve fund for additional needs and contingencies as for his tax relief plan.

Federal Reserve Chairman Greenspan also believes that tax reductions are fiscally prudent at the current time. Given the rise in surplus projections, it now looks likely that the United States will have retired all of the debt that is able to be redeemed by the middle of this decade. After such time, the Government is forecast to accumulate large cash balances, which would need to be invested in the private economy, absent any policy changes. Chairman Greenspan warned that Government investment in the economy could have deleterious economic effects and recommended that policymakers take action now to reduce the projected on-budget surpluses through tax reductions, in order to pre-empt an accumulation of excess cash. The President's plan is in line with the advice of the Federal Reserve Chairman.

The President's tax plan is modest in a historical sense. It will reduce projected revenues by 1.3 percent of GDP by 2006.

In contrast, President Reagan's tax cut reduced revenues by 4.5 percent of GDP over a similar period, relative to baseline projections.

Thus, the President's plan is socially, economically and fiscally sound. It will also have near-term benefits now that the economy has slowed markedly. It provides an insurance policy against a further deterioration in the growth outlook and should help the economy rebound more quickly to robust growth rates. This is another reason why the President's tax plan is responsible and well suited for the times.

3. STRENGTHEN AND REFORM EDUCATION

Bipartisan education reform is the cornerstone of President Bush's Administration.

The quality of our public schools directly affects us all as parents, as students, and as citizens. Yet too many children in America are segregated by low expectations, illiteracy, and self-doubt. In a constantly changing world that demands increasingly complex skills from its work force, children are being left behind.

Today, nearly 70 percent of low-income fourth graders are unable to read at a basic level on national reading tests. Our high school seniors trail students in most industrialized nations on international math tests. And nearly a third of our college freshmen find they must take a remedial course before they are able to even begin regular college level courses.

The President's agenda for education reform serves as a framework for common action, encouraging all of us—Democrat, Republican, and Independent—to work in concert to strengthen our elementary and secondary schools, to build the mind and character of every child, from every background, in every part of America.

Bipartisan solutions are within our reach. The way forward to reform involves a series of education initiatives aimed at creating a culture of achievement that leaves no child behind—proposals intended to reform the Nation's public schools by:

- Encouraging States to raise standards;
- Holding schools accountable for improving student achievement;
- Restoring local control; and
- Empowering parents with choices from before schooling begins to college and beyond.

The President's first budget translates those principles into programs. (See Chart 3–1.)

From Principles to Programs

The President believes that while the Federal Government properly plays a partnership role in the education of our children, education remains primarily a State and local government responsibility. The Federal Government should use the comparatively small amount of its investment in elementary and secondary education—approximately seven percent—to encourage systemic education reform in the States.

Three aims guide the Federal effort:

- For States: flexibility in directing education and saving resources, in exchange for accountability through measurable results;
- For schools, principals, and teachers: autonomy and local control, in exchange for accountability; and
- For parents: information and options, to enable them to provide the best possible education for their children.

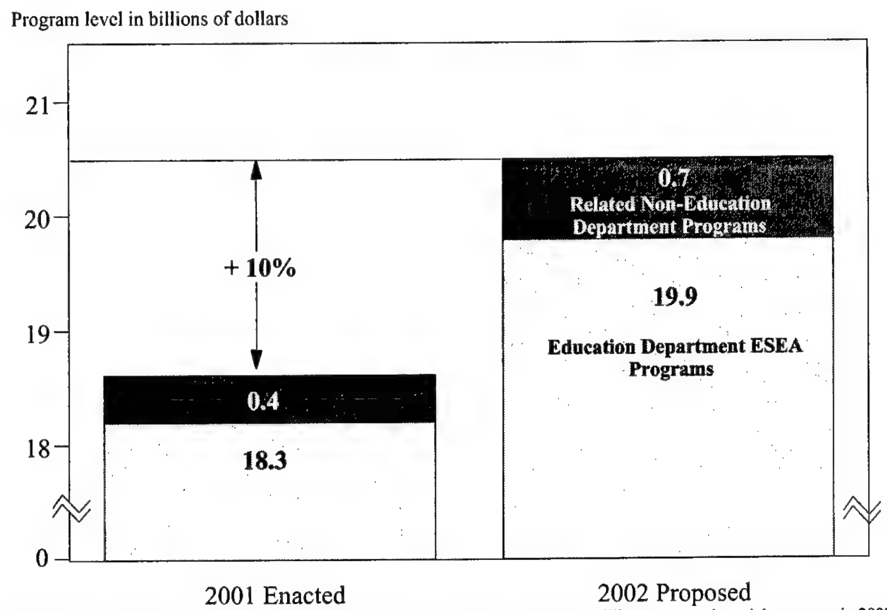
The President's education reform plan has six core components, each aimed at advancing the objective of quality education for all American children:

The Gateway to Education—The Reading First Reform Agenda

Research indicates that reading is the gateway to all learning. Given the importance of reading to a student's ultimate educational success, the President considers it a national tragedy that nearly 70 percent of low-income fourth-graders cannot read at grade level. This is especially tragic since research has identified reading instruction methods that work.

The President proposes a Reading First reform agenda, aimed at intervening early to build the strong reading skills all children need to succeed. The President's agenda will:

Chart 3-1. Elementary and Secondary Education Act and Related Programs



Note: Elementary and Secondary Education Act (ESEA) programs increase by $1.6 billion, or more than eight percent, in 2002. Increases for related program areas such as math and science education, after school certificates, and community technology centers, totaling $340 million, bring the increase over 2001 to nearly 10 percent.

- Establish the Reading First program—an investment of $5 billion over five years to ensure that every child in America can read by third grade, with special emphasis on intervention efforts aimed at children in kindergarten through second grade who are at risk of falling behind;
- Reform Head Start, by making school readiness—pre-reading and numeracy skills—Head Start's top priority, and begin to plan the move of Head Start to the Department of Education to strengthen this new emphasis; and
- Support an early childhood reading initiative to help prepare young children to read in existing pre-school and Head Start programs.

Equality and Excellence in Education—Closing the Achievement Gap Through Strong Accountability

The President approaches education with two bedrock beliefs in mind: all children can learn, and no child should be left behind. Unfortunately, the children most often hurt by weak standards, limited opportunities and "the soft bigotry of low expectations" are the least advantaged among us: children whom the Federal Government has a special obligation to help—low-income or minority children, as well as those with limited English proficiency.

For 35 years, the primary source of Federal K-12 education funding has been the Title I program. The goal of Title I—eliminating the achievement gap separating low-income and minority students from their peers—remains as compelling as the day the law was signed; the failure of the traditional

Title I approach, however, proves that Federal reform is long overdue.

Since 1990, we have spent nearly $90 billion in the Title I program and yet achievement scores have remained generally stagnant.

Despite spending billions of dollars on education, we have fallen short in meeting our goals for educational excellence. The academic achievement gap between rich and poor, Anglo and minority is not only wide, but in some cases is growing wider still.

To increase standards of excellence for all students, the President proposes a bold and ambitious Federal approach to education, granting States and local schools unprecedented freedom from Federal regulation—in exchange for accountability for results.

Accountability without the means to measure achievement is an empty promise. The President believes that schools must have clear, measurable goals focused on foundation skills and essential knowledge. There must be annual testing to ensure those goals are being met. Results should be broken down by student group, and published in school-by-school report cards.

Finally, without consequences for failure, there is no pressure to succeed. For that reason, an "accountability principle" requires that Federal reward funds should flow to States and schools that improve student achievement, and consequences should be imposed on those whose performance stagnates or declines.

Accountability must be accompanied by local control, in both measures and means. Responsibility for developing assessments should reside with States and local communities.

- States will be given more freedom in directing Federal education dollars in exchange for creating a comprehensive system of accountability, including regular measurement of student achievement (annual State assessments in all grades 3–8 broken down by student group) and regular public reporting of those results;
- A new fund will reward States and schools that improve student performance, while a portion of Federal administrative funding will be withdrawn from States that permit student performance to decline;
- To restore local control, the President proposes to consolidate many Federal programs within five flexible categories, allowing States to direct funds towards major priorities; and
- Educational technology programs will be strengthened and better coordinated to be used as a tool to boost student achievement.

Empowering Parents—More Options from Kindergarten to College and More Information to Make Those Options Meaningful

The President believes that parents are the most important enforcers of accountability in education, because no parent—given the option—would willingly keep her or his child in an under-performing school. Yet only when parents are armed with information can they press for change. To accurately assess school performance, parents must be armed with the best possible information, as well as options and resources to ensure their child has the opportunity to achieve educational excellence.

To help empower parents, the President's reform plan proposes the following programs:

- To arm parents with information, all States will be required to publish school-by-school report cards, and make those report cards available via the Internet;
- To expand school choice, parents of students trapped in chronically failing schools will have the option of transferring to another public school that is making adequate educational progress—or using their share of Federal Title I funds to seek supplemental educational services or private school alternatives;
- To expand charter school options, the Federal Government will provide seed capital to assist charter schools with start-up costs and other needs;
- To help parents offset the increasing costs of education, existing Education Savings Accounts will be expanded, increasing the annual contributions limit from $500 to

$5,000—and allowing funds to be withdrawn tax free to pay educational expenses from kindergarten through college; and

- To encourage parents to save early for college, a full tax exemption will be available for all qualified pre-paid tuition and savings plans.

Quality in the Classroom—Improving Teacher Quality, Increasing Teacher-Related Resources

The President believes that as Government asks more of teachers, it must do more to help teachers reach higher goals. To that end, the President's Budget includes proposals to ease and encourage the entry of skilled professionals into teaching, to improve teacher training, to help teachers enforce discipline in the classroom, and to treat teachers more fairly.

The President's quality in the classroom initiatives include:

- Consolidating and increasing funds for teacher training and recruiting into a $2.6 billion fund that provides States the flexibility to improve teacher quality while ensuring increased accountability;
- Expanding existing student loan forgiveness limits from $5,000 to $17,500 for math and science majors who teach those subjects in high-need schools for five years;
- Increasing funds for the Troops-to-Teachers transition program to $30 million, to encourage former military personnel to continue their public service in America's classrooms;
- Establishing a tax deduction for teachers, allowing the deduction of up to $400 dollars in out-of-pocket classroom expenses; and
- Supporting math and science partnerships among States, universities, and school districts to improve math and science K-12 education.

Restoring School Safety and Promoting Character Development

The President believes that comprehensive education reform includes renewed emphasis on character development, and a commitment to ensure school safety. To achieve these goals, the President's proposal seeks to streamline two complementary programs, Safe and Drug-Free Schools and Communities and 21st Century Community Learning Centers, and create State formula grants for before- and after-school learning opportunities and for violence and drug prevention activities. Though moral education properly begins at home, parents have the right to expect schools to be allies in the attempt to instill good character, not value-free zones where students' physical and moral well being is at risk. To meet this challenge, the President proposes initiatives to:

- Require States to measure and improve school safety—and to provide students in chronically dangerous schools with the option to transfer to a safe school;
- Establish "Project Sentry" to prosecute juveniles who carry or use guns, as well as the adults who provide them;
- Improve discipline by requiring schools to strengthen teachers' ability to enforce order in the classroom by enacting a Teacher Protection Act to shield teachers from meritless lawsuits;
- Triple Federal character education funding, and expand the role of faith-based and community organizations in after-school programs; and
- Help parents obtain safe, supervised after-school care with a high-quality educational focus through after-school certificates.

Modernizing Schools for Military Dependents and Native Americans

The President believes that the Federal Government has a special obligation to certain schools—those schools that educate the children of families who serve in the U.S. military and those that educate Native American children. However, the Federal obligation to these schools has not always been met—

most notably in the area of school construction. The President's proposal includes initiatives to help support school construction and renovation by:

- Eliminating the Bureau of Indian Affairs' school repair and maintenance backlog by 2006, while replacing older and more dilapidated schools;
- Increasing funding for the Impact Aid construction program by $62 million to improve the quality of public school buildings and eliminate the backlog of repairs and construction for schools on or near military facilities and those serving children from Native American lands.

In addition, the President proposes to help local school districts meet school construction demands by allowing State private activity bonds to be used for school construction and repair.

4. MODERNIZE AND REFORM SOCIAL SECURITY

For 65 years, Social Security has provided retirement security for tens of millions of Americans. Four generations of Americans have relied on the Government to keep the promises it made to them during their working years. As demographics change and costs increase, the challenge we face is ensuring that the Social Security system is strengthened for tomorrow's retirees.

The Need for Reform

Social Security's spending path is unsustainable in the long run, driven largely by demographic trends.

First, longer life spans mean more benefit payments. In 1940, during the early years of the program, life expectancy at age 65 was an additional 12 years for men and 13 years for women. By 2075, the remaining life expectancy at age 65 is projected to be 20 years for men and 23 years for women. As a result, people are spending a growing proportion of their lives in retirement. While longer life spans are clearly desirable, they also mean additional years of benefit payments, and a dramatic long-term increase in Government obligations.

In addition, a long-term decline in fertility rates means there will be fewer workers available to support each retiree once the baby boom generation starts to retire. As a result of declining birth rates and increasing life expectancy, the ratio of workers to Social Security beneficiaries is expected to shrink from 5.1 in 1960 to 3.4 today to 2.1 in 2030. These demographic trends will strain our ability to make benefit payments at current payroll tax rates.

The Social Security system faces a long-term unfunded liability of $8.7 trillion. In addition, the structure of Social Security leads to substantial generational inequities in average rate of return. (See Chart 4–1.)

Old Solutions and a New Approach

Without new thinking on Social Security reform, two old choices will soon present themselves. We can further reduce future retirees' returns from Social Security through benefit cuts or through tax increases. Or we can do nothing—inaction would simply mean leaving this problem for our children and grandchildren instead of addressing it for them now.

There is a better way to address both the long-term financial crisis and the generational inequities. Allowing individuals to keep some of their payroll taxes in personal retirement accounts to provide for their own retirement security can reduce the need for a rapidly growing Government outlay by creating opportunities for younger workers to enjoy the fruits of higher rates of return in private equity markets.

Principles for Reform

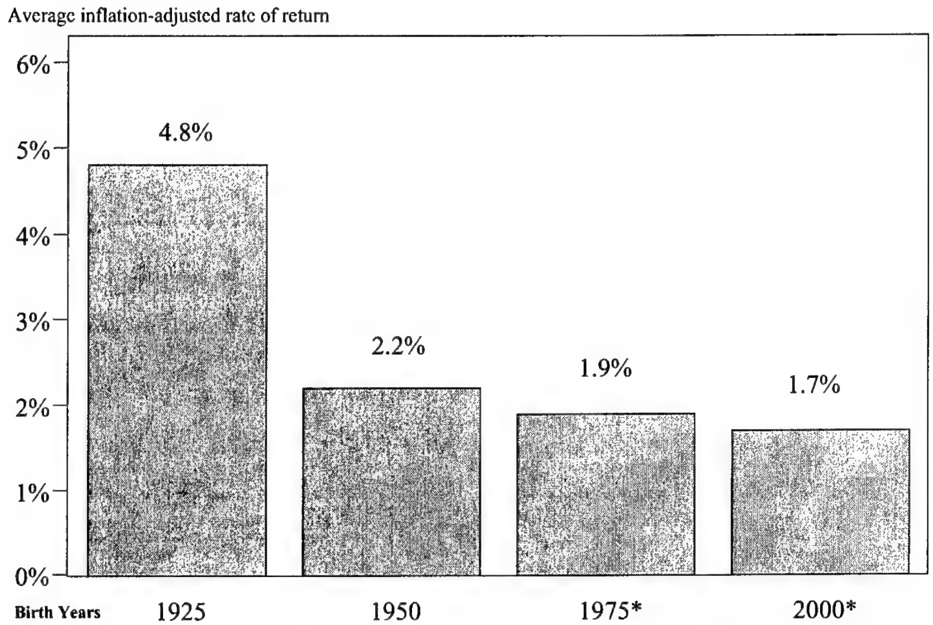
Modernization must not change existing benefits for current retirees or near-retirees, and it must preserve the disability and survivors' components. The promises made to current retirees must be kept.

The Social Security surplus must be preserved only for Social Security. For 30 years, Social Security surpluses have been used to mask spending increases in programs unrelated to Social Security. Surpluses in the Social Security Trust Funds will total $2.6 trillion over the next 10 years. These surpluses will be saved for Social Security reform and will be used to reduce debt held by the public until Social Security reform is enacted.

Social Security payroll taxes must not be increased, as they have been 20 times since the program began in 1937.

The Government itself must not invest Social Security funds in the private economy.

Chart 4-1. Social Security Rates of Return Falling with Each Generation



*Assumes current-law benefits. The Social Security trust fund will not be able to meet current-law benefit obligations after 2037. Accordingly, rates of return are overstated.

Successful Social Security reform, which addresses both the long-term unfunded liability and the generational inequities, must be built upon a core of individually controlled, voluntary personal retirement accounts that will augment the Social Security safety net.

The Benefits of Personal Retirement Accounts

Personal retirement accounts, which would be voluntary, would enable individuals to build financial wealth and security in a way that the current Social Security system does not. Personal accounts invested in safe private financial markets will earn higher rates of return than the traditional system and help workers enhance their personal savings and their freedom to retire. Ownership of a real financial asset without the political risk of future changes would mean more security for working Americans to build their own retirement assets, and to pass those assets on to their children.

A balanced portfolio of stocks and bonds can, in the long run, yield almost a 5.5 percent real rate of return. Even a portfolio of inflation-adjusted Government bonds yields a 3.0 percent real rate of return. Both are significantly better investments than those implicit in the current Social Security system, which, for many younger workers, could ultimately result in a negative rate of return.

This higher rate of return, through individually controlled investments in private debt and equity markets, is the key to the success of personal accounts. A two to four percentage point differential, compounded over time, means greater retirement security than under current law.

The long-term fiscal challenge facing the Social Security system, and the generational inequities inherent in that system, drive the need for reform. Reform is significantly easier to implement if done far in advance, so that individuals and families have time

to adjust their retirement plans, and so that changes can be phased in slowly over time. Reform based on personal accounts presents a tremendous new opportunity to enable individuals to build financial wealth and security, while reducing the twin problems of fiscal imbalance and generational inequity.

5. MODERNIZE AND REFORM MEDICARE

Like Social Security, Medicare represents a promise that the Nation has made to its senior citizens—a promise that we have an enduring obligation to keep.

With this Congress, the executive and legislative branches and both political parties will take a first step towards restoring the strength of this promise not just for years to come, but for generations to come.

Modernizing and saving Medicare must rank among the most urgent priorities in an era of common purpose.

Promises to Restore

Following Congressional passage of Medicare in 1965, President Lyndon Johnson said: "No longer will older Americans be denied the healing miracle of modern medicine." Yet today, in many ways, Medicare no longer keeps pace with modern medical advances. Although Medicare coverage of preventive care services has been significantly expanded over the past five years, Medicare still offers a benefit package based on the most popular Blue Cross/Blue Shield package of President Johnson's era—a standard of excellence at the time that is inadequate today. And for many seniors, Medicare does not offer coverage choices that many of the privately insured have become accustomed to receiving.

One of the largest flaws in Medicare coverage today is its failure to cover outpatient prescription drugs. Approximately 98 percent of private health insurance plans offer a prescription drug benefit or a cap on out-of-pocket expenses as an integral part of the benefit package. Private health insurers recognize the important role of drug therapy in medical care. Drugs can often be cost-effective therapies preventing the need for more expensive hospitalizations or other intensive therapies.

The need for Medicare reform does not relate only to the financial condition of Medicare or the lack of adequate coverage. Of perhaps equal concern is the complexity and inflexibility of the Medicare bureaucracy itself. The current system, with ever increasing pages of regulations, administrative guidelines and other endless directives issued on a monthly basis, leaves providers and beneficiaries often bewildered and frustrated. The current system is too complex, too centralized, and becoming more so each year. Burdensome regulations and other central directives force providers to take time away from patients to comply with excessive and complex paperwork.

Excessive administrative complexity also makes Medicare prone to fraud and abuse. In 1999, the HHS Inspector General determined that Medicare made more than $13 billion in improper payments. Given the complexity of Medicare, it is often difficult to determine where honest mistakes end and fraud begins. The GAO concluded as recently as January 2001 in its *High-Risk Update* that the Health Care Financing Administration (HCFA) "lacks sufficient information on newly designed payment systems to determine whether providers are being paid appropriately for the services they deliver."

Sustaining the Medicare program for future generations of beneficiaries will require an honest and forthright effort by the Federal Government to address these problems. Reforming Medicare will also require reforming HCFA. This will include employing every strategy appropriate to enhance quality health care options for beneficiaries rather than relying on increasingly punitive regulations, arbitrary and multiple pricing systems, and delays to maintain the status quo.

How Outmoded Has Medicare Become?

Today, Medicare covers only 53 percent of the average senior's annual medical expenses. The current Medicare program is burdened by horrific bureaucratic complexity and operates in a non-competitive, inefficient manner. In addition, the program lacks the flexibility to operate differently.

Medicare fails today's elderly patients in other ways:

- The preventive care services offered under Medicare, while greatly expanded, are still insufficient to help seniors remain healthy, and therefore avoid more expensive care later;
- Routine services such as annual physicals, vision tests and hearing aids are not covered;
- It is not coordinated with the employment-based health insurance system, providing disincentives to continued work;
- It has a fee-for-service cost-sharing structure that still leaves seniors vulnerable to high costs, and is less effective than necessary in ensuring good use of care; and
- It currently maintains separate trust funds, one for inpatient hospital and post-acute care, and one for physician fees and other outpatient costs. This separation may lead to misleading assessments of Medicare's financing and reflects a different era of medicine.

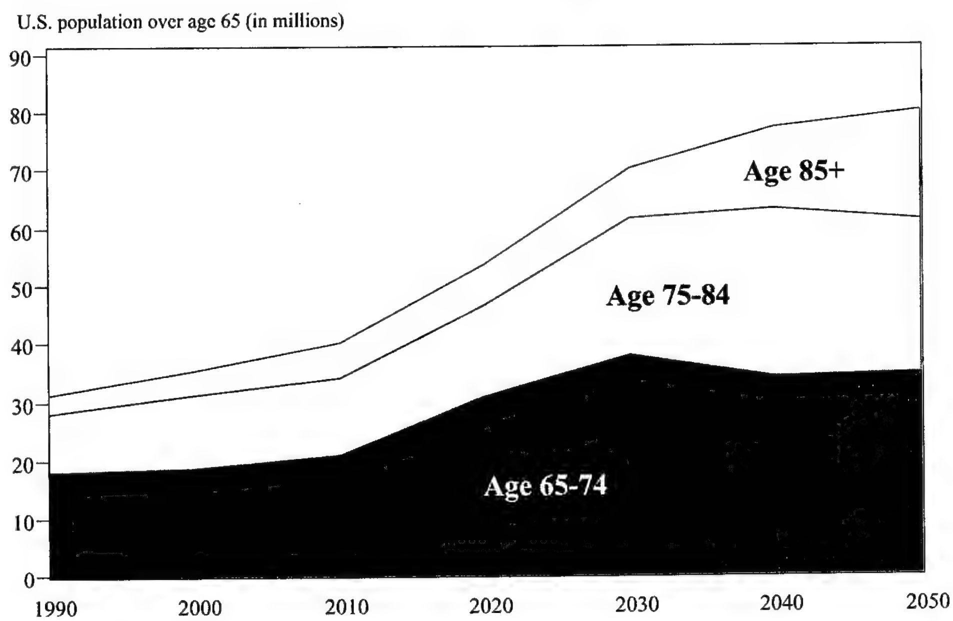
Financial Reasons for Reform

In addition to the way Medicare fails to provide the care seniors deserve, there is irrefutable evidence that Medicare's finances are headed for bankruptcy.

Like Social Security, Medicare's long term financing is driven by the significant demographic trends that will begin taking shape in about 10 years. (See Chart 5–1.)

- Between 2010 and 2030, the number of persons age 65 and older will increase from 39.7 million to 69.1 million. That's an average of one and a half million more seniors per year for 20 years.
- During that same period, the Medicare actuaries project Medicare spending will increase from $324 billion to $694 billion, in constant 2000 dollars.

Chart 5-1. The Aging of Society Makes Reform Urgent



Source: US Bureau of the Census, Current Population Reports, 1995

- This shift in demographics will begin with retirement of the baby boom, but it will not end there.
- The great advances in health and well-being of the 20th Century will lead to significant increases in the average life span in the 21st Century.
- Demographers now project that persons born in 2000 will live, on average, to age 76, up almost six years compared to people born in 1970.
- As a result, there is projected to be a permanent shift in the ratio of workers to Medicare beneficiaries, from 4.0 workers today to 2.3 in 2030 and 2.0 in 2070.

These demographic trends will dramatically change spending for both Social Security and Medicare, but the problem is likely to be even more pronounced in Medicare due to the expected increases in health care costs per beneficiary. Medicare per capita spending is projected to vastly outpace the consumer price index for the next 25 years.

These demographic trends are impacting the Medicare program as a whole, making it critical to focus on the solvency of Medicare in its entirety.

While it is true that the Hospital Insurance Trust Fund is projected to have a surplus over the next ten years, it is misleading to focus so much attention on only one of the program's two trust funds representing only 60 percent of total Medicare spending.

A full assessment of Medicare's finances reveals spending exceeds the total of tax receipts and premiums dedicated to Medicare today, and that "financing gap" is projected to widen dramatically. This gap is $51 billion in 2000, growing to $216 billion (using constant dollars) in 2020, and $368 billion in 2030. Not only is there no surplus in Medicare today, there is a large deficit. (See Chart 5–2.)

Even without the large financing problem, Medicare modernization would be necessary to ensure beneficiaries get high quality health care. But the looming financial shortfall makes reform even more urgent. To be successful, reform must substantially improve Medicare's long-term financing.

The President's Approach to Improving and Strengthening Medicare

Coupled with a systematic effort to change the outmoded Medicare program and its administration, the budget will devote $156 billion this year and over 10 years for urgently needed Medicare modernization, including providing for an integrated prescription drug plan.

The President plans to reform Medicare based on the following principles:

- Medicare's current guarantee of access to seniors must be preserved;
- Every Medicare recipient must have a choice of health plans, including the option of purchasing a plan that covers prescription drugs;
- Medicare must cover expenses for low-income seniors;
- Reform must provide streamlined access to the latest medical technologies;
- Medicare payroll taxes must not be increased; and
- Reform must establish an accurate measure of the solvency of Medicare.

The President's Proposal: Immediate Helping Hand

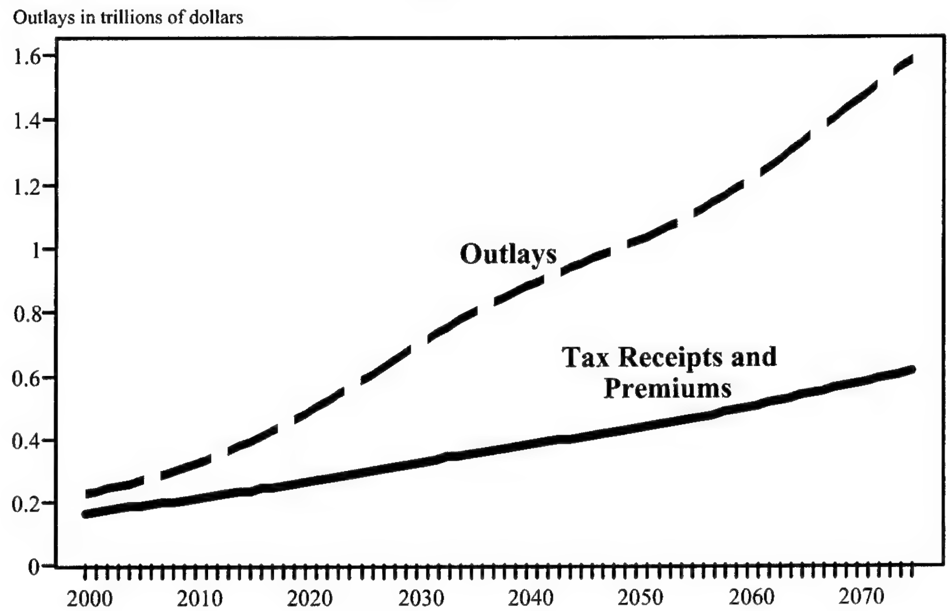
Until Medicare reform is enacted and implemented, the President is proposing a program to give immediate help to our neediest seniors.

The President believes it is essential to get help to seniors now. He believes it is equally essential for the Administration and both parties in Congress to work together to make certain that Medicare reform produces a better program that is financially sound.

The President's program includes:

- Immediate Helping Hand funds that will go to States to offer quick, short-term assistance for low income seniors to cover all or part of the cost of prescription drugs, and catastrophic drug coverage for all seniors;
- Prescription drug coverage to seniors whose incomes are at or below 135 percent of the poverty line for no premium and

Chart 5-2. Medicare Outlays vs. Medicare Tax Receipts and Premiums



Note: Outlays include Part A and Part B outlays in constant 2000 dollars.
Tax receipts and premiums are defined as payroll tax, tax on social security benefits, and Part B premiums in constant 2000 dollars.
Source: Annual Report of the Board of Trustees of the Federal Hospital Insurance and Supplemental Medical Insurance Trust Funds

nominal co-payments. The President's proposal also provides partial coverage for those with incomes between 135 percent and 175 percent of poverty; and

- Funds for States to provide catastrophic coverage for all seniors with over $6,000 in out-of-pocket drug costs per year. (See Chapter 13, "Invest in Health Care" for a more detailed description.)

6. REVITALIZE NATIONAL DEFENSE

Ensuring the common defense is the sworn duty and first responsibility of any President. The President believes a strong military is essential to defend American interests and extend the more secure peace that resulted from the end of the Cold War.

As old threats recede, however, new threats emerge. While the Cold War may be over, a Cold War focus continues to define our Armed Forces in terms of doctrine, structure and strategy. The threat of a massive nuclear attack launched by the Soviet Union has been replaced by a world in which threats come from rogue states bent on acquiring weapons of mass destruction and terrorism—threats as unconventional as they are unpredictable. America's armed forces are more than capable of defending our national security in such a world, provided we adapt our defense strategy and structure accordingly.

The President took office with three goals in mind: To renew the bonds of trust between the Commander in Chief and the American military; to protect the American people from missile attack and threats of terror; and, central to these goals, begin building a military capable of combating the threats of a new century.

Restoring Military Morale

The President believes that the men and women who choose to serve this country deserve not only our respect, but also our support in terms of pay, housing, and other quality-of-life issues. We cannot honor our servicemen and women and yet allow substandard housing and inadequate compensation levels to endure.

Restoring morale also means restoring a clear sense of mission. To this end, the President has pointed to the pattern of extended deployments that have characterized the post-Cold War period and has made clear that future deployments must reflect clear American goals, sharpened mission focus, and an end to the practice of diffuse, open-ended commitments.

To signal to our servicemen and women our renewed respect, the President proposes to:

- Add $1.4 billion for a military pay raise and allowances;
- Increase, by $400 million, funding to improve the quality of housing or reduce out-of-pocket expenses for housing for our military personnel and their families; and
- Fund new and expanded health benefits for military retirees recently authorized by Congress.

Shape a 21st Century Force Structure

The Cold War is over, but to a too great extent the structure and strategies appropriate to that era of bi-polar, super power stand-off continue to govern our Armed Services. The Cold War posture can trace its origins to the Eisenhower era and the early debates over the New Look strategy. This strategy laid the foundation for the structure of armed forces and deterrence policy that dominated until the collapse of the Soviet Union. Indeed, the last revision to that national security strategy occurred in the Gulf War period with the introduction of a Regional Defense Strategy as a means to transition to the post-Cold War imperatives. That interim strategy has remained transitional and largely unaltered since its introduction a decade ago.

The President has called for a review of the U.S. military posture. The review will examine the imperatives for national security capabilities, scrutinize the structure of our armed forces, and set priorities for research, development, procurement, and operations. These findings will help develop a new national defense architecture, consistent with our alliance obligations and enduring interests, yet suitable to meet the emerging threats of a new century.

In addition, the findings will provide the underpinning for informed decisions about appropriate resource adjustments necessary to carry out the objectives of the review.

Develop Next Generation Weapons Systems

The President is committed to enlisting the power of American technology in the service of national security. In both R&D and acquisitions, he will emphasize programs that offer our Armed Forces information superiority, safety through stealth, and victory achieved less through massed power than superior striking speed, agility and mobility. In short, the President intends to equip the U.S. Armed Forces with the systems and strategy that will allow us to redefine war—on our terms.

To that end, the President challenges the defense technology community to use the present window of relative peace not just to modernize the force but to move beyond incremental improvements on defense systems already deployed and develop the military forces the nation will need for the 21st Century. The President proposes to:

- Increase defense R&D by $20 billion between 2002 and 2006; and
- Allocate 20 percent of the R&D budget to especially promising programs that propel America's Armed Forces generations ahead in military technology.

Safeguarding Nuclear Security

Our nuclear weapons remain key to our national security and the President is committed to maintaining a modern and effective force. Nevertheless, the President believes America must rethink the requirements of nuclear deterrence in our new security environment. Most particularly, our deterrent for the future must be based on a combination of offensive and defensive capabilities. While the President will seek to persuade Russia to join us in further reducing nuclear arsenals, he is also prepared to lead by example. The President proposes to maintain our nuclear arsenal with the lowest number of nuclear weapons consistent with our present and future national security needs.

Deploying Missile Defense

As the President said during the campaign, "America's development of a missile defense is a search for security, not a search for advantage."

In a world where more than a dozen nations possess ballistic missile technology, and a number of nations are racing to acquire weapons of mass destruction, America's most pressing national security challenge is to reduce our current vulnerability of our deployed forces and our allies and friends by acquiring defenses against missile attack. Outmoded arms control treaties must not compromise America's security; as the President has said, his "solemn obligation (is) to protect the American people and our allies, not to protect arms control agreements signed almost 30 years ago."

America must build effective missile defenses based on the best available technologies, deployed at the earliest possible date. These defenses must be designed to protect our deployed forces abroad, all 50 States, and our friends and allies overseas.

7. CHAMPION COMPASSIONATE CONSERVATISM

Our Nation has a long and honorable commitment to assisting individuals, families, and communities who have not fully shared in America's prosperity. Yet, despite a multitude of programs and commitments by government at all levels, too many Americans suffer despair and poverty amid our abundance.

- As many as 15 million young people are at risk of not reaching productive adulthood because of crime, drugs and other problems that make it difficult to obtain an education or a job;
- About 1.5 million children have a parent in prison;
- Over half a million children are in foster care, more than one fifth of whom are awaiting adoption;
- In 1997, more than one million babies were born to unwed mothers, many of them barely past their own teen years; and
- Nearly one in six families with children live on an annual income of $17,000 or less.

Millions of Americans are enslaved to drugs or alcohol. Many live on the streets. And, despite the success of welfare reform in moving adults into productive work, many families remain dependent on welfare and many who have left the rolls can barely make ends meet.

A great and prosperous Nation can and must do better. Americans are a deeply compassionate people and will not tolerate indifference toward the poor. But, they also want compassionate results, not just compassionate intentions.

Compassionate acts must promote long-term success as well as immediate relief; that is, for change to be lasting, its goal must be self-reliance. Rights and responsibilities are inextricably linked in American life, and all Americans have a great stake in the outcome of any helping act; we share not only a common Nation, but also common humanity itself. We are obligated to care for one another because it is the right thing to do, and this obligation is the moral root of civilization.

Moreover, lasting and profound change in a human life comes most often when care is offered on a personal level by families and by those with a stake in the community, who are motivated by a burden of the heart to improve the lives of those around them.

Compassionate conservatism means providing vigorous and thorough support for those in need, while preserving the dignity of the individual and fostering personal responsibility. It means that caring must be accompanied by more than education and assistance. It must come with encouragement, and an expectation of success. It means that every compassionate effort must extend beyond the temporary amelioration of want toward independence and personal authority.

Government can spend money, but it cannot put hope in our hearts or a sense of purpose in our lives. It is personal, sincere compassion that warms the cold of life, and that hopes for something lasting and better for our fellow man. It is a fundamental American trait to care in this way; it is a quiet river of goodness and kindness that cuts through stone.

The Role of Faith-Based Organizations and Community Groups, and a Different Role for Government

Successful support for those in need can come from many sources, not just Government. In every instance where this Administration sees a responsibility to help people, it will look first to faith-based organizations, charities, and community groups that have shown the ability to save and change lives. These

neighborhood healers will not replace Government, but partner with it to make life better for those in need.

With this budget, the President commits our Nation to mobilizing the armies of compassion—charities and churches, communities and corporations, ministers and mentors—to transform lives. These groups are proving that real change comes from the bottom up, not the top down. Moreover, these faith-based and community organizations will be permitted to compete for Federal funds as long as secular alternatives are also available. Faith-based organizations can maintain their religious characteristics, but the Federal Government cannot fund inherently religious activities.

Resources are to be devolved, not just to the States, but to the neighborhood healers who need them most. Resources shall be available on a competitive basis to all organizations—including religious ones—that produce results. This is the next bold step of welfare reform.

A Determined Attack on Need

The President believes that there is a growing gap of hope in our country that threatens the very fabric of our society. Therefore, this Administration will work to provide an equal opportunity for every American to achieve his or her dream.

Need is great and varied. Some Americans are just off welfare and have entered the work force. They feel the strong pull of the past—and sometimes their only motivation to go on is faith that their hard work will pay off. There are those who live in the shadow of poverty, who are not quite able to share in the prosperity of our times, and who are no more than a paycheck away from ending up back where they started. Some Americans need a fresh start out of difficult circumstances. Some need a second chance. Some need a small measure of extra support to make ends meet. Some need support in helping their children avoid the temptations and dangers in our society. And some are already in the grip of drugs and violence.

This Administration cannot and will not give up on any American who needs our help. The President, therefore, proposes a multi-faceted attack on need, including initiatives to:

- Create a Compassion Capital Fund to invest in charitable best practices;
- Open Federal after-school programs to community groups, churches and charities;
- Launch a new pilot program for inmates nearing release, and make Federal funds available on a competitive basis for faith-based pre-release programs at Federal facilities;
- Make grants available to faith-based and community groups focused on improving the prospects of low-income children of prisoners;
- Increase drug treatment funding and ensure that faith-based and other non-medical drug treatment programs have equal access to Federal funds;
- Establish second chance homes for unwed teenage mothers;
- Promote responsible fatherhood;
- Make the adoption tax credit permanent and increase it from $5,000 to $7,500; and
- Expand efforts to help low-income families pay the rent and avoid homelessness.

Given the intransigence of the problems we face and, most importantly, the intrinsic value of every human life, the President proposes dedicating $8 billion to provide new tax incentives for giving, and to support charities and other private institutions that save and change lives.

An Outpouring of Giving

Our national character shines in our compassion; we have always found our better selves in sympathy and generosity. It emerges from our nature as a people.

Americans are truly generous. In 1999, charitable giving totaled $190 billion, an increase of nine percent over the previous year. However, when measured as a percent of gross domestic product, Americans give

the same amount today (2.1 percent) as they did in 1971.

To stimulate additional charitable giving by individuals and families, the President proposes initiatives for individuals and families to:

- Expand the Federal charitable deduction to the 70 percent of all filers who do not itemize;
- Promote a tax credit against State income or other taxes for contributions to charities addressing poverty, allowing States to designate the targets for this charitable giving and giving States flexibility to offset lost receipts; and
- Permit charitable contributions from IRAs without penalty, thus ending the disincentive for retirees to contribute to causes aimed at relieving need.

To encourage corporations to be full partners in mobilizing and strengthening charities, the President proposes to:

- Promote extension of charitable State tax credits to corporations;
- Raise the cap on corporate charitable deductions; and
- Provide liability protection for corporate in-kind donations, thus expanding protection of individual volunteers and providers of foodstuffs to also include equipment, facilities, vehicles and other material contributions.

Eliminate Barriers to Faith-Based Action

Social scientists have documented the power of religion to protect families and change lives. Studies indicate that religious involvement reduces teen pregnancy, suicide, drug addiction, abuse, alcoholism, and crime. Similarly, grassroots inner-city outreach ministries have been credited by numerous leading social scientists with playing a major role in helping at-risk youth to avoid violence, achieve literacy, and find jobs.

The President believes that America must stop trying to eliminate poverty, crime, and addiction with one hand tied behind its back. Thus, he is committed to removing barriers to the participation of faith-based groups in Government programs. The President therefore promotes initiatives to:

- Expand Charitable Choice by making it explicitly applicable to all Federal laws that authorize the Government to use nongovernmental entities to provide services to beneficiaries with Federal dollars; and
- Encourage the establishment of State offices of faith-based action.

By Executive Order, the President has already established an Office of Faith-Based and Community Initiatives to identify barriers to such efforts, to serve as a national clearinghouse for information, and to assist faith-based and community groups needing help with regard to Federal action. The President has also created Centers of Faith-Based and Community Initiatives within the Departments of Education, Health and Human Services, Justice, Labor, and Housing and Urban Development to ensure Government is a true partner in supporting faith-based and community organizations.

VI. OTHER KEY POLICY PRIORITIES

8. ASSIST AMERICANS WITH DISABILITIES

Disability is not the experience of a minority of Americans. Rather, it is an experience that will touch most Americans at some point during their lives. Today, there are more than 54 million Americans with disabilities, a full 20 percent of the U.S. population. About half of these individuals have a severe disability, affecting their ability to see, hear, walk, or perform other basic functions of life.

Eleven years ago, then-President George Bush signed the Americans with Disabilities Act (ADA), one of the most significant civil rights laws since the Civil Rights Act of 1964. In doing so, America opened its door to a new age for people with disabilities. The ADA gives civil rights protections to individuals with disabilities that are like those provided to individuals on the basis of race, sex, national origin, and religion. Two and a half years ago, amendments to Section 508 of the Rehabilitation Act of 1973 were enacted, ensuring that the Federal Government would purchase electronic and information technology that is open and accessible to people with disabilities.

However, significant barriers still exist to individuals with disabilities who try to fully participate in American society. People with disabilities want to be employed, educated, and active citizens in the community. Unfortunately, on average, Americans with disabilities have a lower level of educational attainment, and are poorer and more likely to be unemployed than those without disabilities. In today's global new economy, America must be able to draw on the talents and creativity of all its citizens.

On February 1, 2001, the President announced his New Freedom Initiative to help individuals with disabilities by increasing access to assistive technologies, expanding educational opportunities, increasing the ability of individuals with disabilities to integrate into the work force, and promoting increased access into the community.

Increasing Access to Assistive and Universally Designed Technologies

Assistive and universally designed technologies can dramatically improve the lives of individuals with disabilities, and make it possible for them to engage in productive work and more fully participate in society. The President's Budget will help ensure that Americans with disabilities can access the best technologies of today and that even better technologies will be available in the future.

Investing in Assistive Technology Research and Development: The budget requests $20 million for the Rehabilitation Engineering Research Centers (RERCs), which are recognized for conducting some of the most innovative assistive technology research in the Nation. These RERCs, housed in universities and nonprofit institutions across the country, also help bring new assistive technologies to market, and provide valuable training opportunities to individuals to become researchers and practitioners of rehabilitation technology. The budget also provides $3 million for the Interagency Committee on Disability Research to better coordinate Federal assistive technology research and development and foster collaborative projects with the private sector.

Promoting Small Business Innovation: While there are nearly 2,500 companies working to bring new assistive technologies to market, many small businesses cannot make the necessary capital investments until they have information concerning the market for a particular technology. To help these businesses bring assistive technologies to market, the budget requests $5 million for a new Assistive Technology Development Fund to help underwrite assistive technology demonstration, testing, validation, and market assessment to meet the special needs of small businesses.

Making Assistive Technology More Affordable: Assistive technology can be expensive—for instance, personal computers configured with assistive technology can cost up to $20,000. Too often, people with disabilities do

not have the financial resources to purchase the assistive technology they need. To help make these technologies more readily available, the budget includes $40 million for States to establish or expand low-interest loan programs to help individuals with disabilities purchase assistive technology.

Expanding Educational Opportunities for Americans with Disabilities

One of the President's first actions was to release his education reform plan to ensure that no child is left behind. Recognizing that a quality education is the key to future success, the budget helps expand educational opportunities for children with disabilities and support early reading instruction for children, including those at risk of being identified as having learning disabilities.

Increasing Individuals with Disabilities Education Act (IDEA) Funding: Originally passed by Congress in 1975, IDEA ensures that children with disabilities will have access to a free appropriate public education. The budget provides increased funding for grants to States to help them meet their obligations under the IDEA. In addition, the budget proposes to give States flexibility to redirect funds for school renovation to support special education needs.

Focusing on Reading in Early Grades: Too often, children fall behind because they do not receive proper reading instruction in the crucial early years. To address this problem, the budget provides $900 million to establish the Reading First initiative for States to implement research-based reading programs to teach every child to read by the third grade. The budget also creates a new $75 million early reading program to prepare young children to read in pre-school.

Integrating Americans with Disabilities into the Work force

Americans with disabilities should have every freedom to meet their full potential and participate as full members in the economic marketplace. The budget will help eliminate barriers to employment and promote full access and integration into the community.

Expanding Telecommuting Options: The budget provides $20 million for a new Access to Telework Fund, for States to provide low-interest loans to help people with disabilities purchase equipment to telecommute from home. The budget also explicitly makes a company's contributions of computers and Internet access for home use by employees with disabilities a tax-free benefit, which should expand the universe of potential and accessible employment. In addition, the Administration will work to ensure that the Occupational Safety and Health Act does not apply to employees working in home offices.

Facilitating ADA Compliance: The budget provides $5 million for the Small Business Administration (SBA) to provide technical assistance to help small businesses comply with the ADA, serve customers with disabilities, and hire more people with disabilities. This funding will also help SBA increase awareness and promote use of the Disabled Access Credit, which provides a 50 percent tax credit on up to $5,000 of eligible expenses annually to help small businesses make their facilities ADA compliant.

Supporting Innovative Transportation Solutions: Transportation can be a particularly difficult barrier to work for individuals with disabilities. The President's Budget supports two new initiatives in the Department of Transportation to expand transportation options for people with disabilities.

- The budget provides $45 million to fund pilot programs to promote innovative transportation solutions for people with disabilities. The selected programs will be run by State or local governments in regional, urban, and rural areas. These pilots will be evaluated after three years and if they are successful, the Administration will encourage expansion of these initiatives to other areas.
- The budget also provides $100 million in competitive matching grants to promote access to alternative methods of transportation. The funds will aid community-based organizations that seek to integrate Americans with disabilities into the work force. The funds will go towards the purchase and operation of specialty vans, assisting people with down payments or costs associated with accessible vehicles,

and extending the use of existing transportation resources.

Implementing the Ticket to Work and Work Incentives Improvement Act: In 1999, Congress passed the Ticket to Work and Work Incentives Improvement Act to reduce barriers and improve incentives for individuals with disabilities to participate in the work force. This law increases vocational rehabilitation and employment service options for Social Security Disability Insurance (DI) and Supplemental Security Income disability beneficiaries who want to return to work; extends Medicare coverage for DI beneficiaries who return to work for an additional four and one-half years; and creates a new State option to expand Medicaid eligibility categories for certain people with severe disabilities so they can receive health coverage even if they are not eligible for disability benefits. Through Executive action, the Administration is committed to supporting agencies in the continued swift implementation of this law.

Promoting Full Access to Community Life

In many other areas, individuals with disabilities are impeded from full participation in American society. Barriers remain, for instance, in homeownership, accessing polling places and private facilities, and community integration. The President is committed to removing these obstacles, and helping individuals with disabilities realize the American dream.

Promoting Accessibility Renovations for ADA-Exempt Organizations: The budget requests $20 million in competitive grants for an Improving Access Initiative, housed within the Community Development Block Grant program. This initiative will help ADA-exempt organizations that have limited resources, including private clubs and religiously affiliated service providers, make their facilities accessible to the disabled.

Improving Accessibility to Voting for Americans with Disabilities: Currently people with disabilities vote at a rate that is 20 percent lower than voters who do not have disabilities. The President recognizes that full integration into society must include access to and participation in the political process, and his Administration will work with Congress to address the barriers to voting for Americans with disabilities.

Encouraging Homeownership for People With Disabilities: The Administration will quickly implement the American Homeownership and Economic Opportunity Act to allow disabled recipients of Section 8 vouchers to use up to a year's worth of assistance in a lump-sum payment to finance the down payment on a home. Reforming Federal rental assistance to give individuals who qualify the opportunity to purchase a home will help recipients build equity and more easily finance other purchases such as a computer or further education.

Implementing the Olmstead Decision: In 1999, the Supreme Court decided in *Olmstead v. L.C.* that the ADA requires the placement of persons with disabilities in a community-integrated setting whenever possible. The Court concluded that "unjustified isolation" is discrimination based on disability and a violation of the ADA. The Administration believes that community-based care is critically important and will work with the States to swiftly implement the *Olmstead* decision.

Establishing a National Commission on Mental Health: The President has committed to create a National Commission on Mental Health, which will study and make recommendations for improving America's mental health service delivery system, including making recommendations on the availability and delivery of new treatments and technologies for people with severe mental illness.

9. COMBAT CRIME AND DRUG ABUSE

The rate of serious crime reported by State and local law enforcement agencies has dropped significantly in recent years. The 1999 Crime Index is down 19 percent from 1992, the eighth consecutive annual decline. Violent crimes, including murders and rapes, have fallen to the lowest level in two decades. Preliminary figures for the first six months of 2000 show a further decline in the crime rate. This success can be attributed to a number of factors, including the strong economy, demographic changes, and Federal aid to the front-line State and local police departments.

Drug abuse imposes a variety of costs on the Nation. These costs include cash costs for the investigation and prosecution of drug-related crimes and the incarceration and treatment of drug offenders, property losses of crime victims and insurance companies, and lost earnings due to illness and premature death. The total costs associated with drug abuse are estimated to exceed $100 billion annually. This figure does not capture the human costs associated with drug abuse—wasted opportunities, families torn apart, and lives lost.

Drug abuse in the United States is down from 20 years ago, but it remains unacceptably high. According to the most recent National Household Survey on Drug Abuse (NHSDA), 6.7 percent of the population 12 years or older reported using an illicit drug in the past month, up from 5.8 percent in 1992.

Among teenagers, the rate of illegal drug abuse is higher than in the population in general. According to the NHSDA, approximately nine percent of youths age 12–17 were current users of illegal drugs in 1999. That figure is down 21 percent since 1997, but substantially higher than the 5.3 percent found by the NHSDA in 1992. The number of young adults, ages 18–25, who have used drugs in the past month continues to rise, increasing from 14.7 percent in 1997 to 18.8 percent in 1999, nearly half again as much as the 13.1 percent rate in 1992.

In addition to the threats posed by marijuana and other traditional drugs such as cocaine and heroin, today's children must deal with a wave of new drugs that are especially dangerous. Synthetic "club drugs" such as Ecstasy, or MDMA, have become popular at clubs and raves. Among 12th-graders surveyed by Department of Health and Human Services' Monitoring the Future Study, 2000, 8.2 percent report using Ecstasy in the past year, compared to 5.6 percent in 1999. Eighth- and 10th-graders also reported significant increases in Ecstasy use in the past year.

The President's Plan of Action

The 2002 Budget addresses the social and economic costs of crime and drug abuse. Among other things, the initiatives, highlights of which are described below, will include expanding the range of community groups and parents who will engage in local drug prevention efforts, increasing drug treatment, taking steps to improve the safety of our schools, and enhancing the security of our borders.

In 2001, the Federal Government will spend more than $18 billion on drug control activities. This is in addition to State and local government expenditures of equal, if not greater, amounts. Despite the extraordinary efforts of law enforcement, the military, teachers, medical professionals, treatment workers, and others, drug abuse is unacceptably high. While we show improvement in eliminating some of the harmful effects of drug abuse, a more comprehensive and accountable approach is needed.

As part of the development of the next National Drug Control Strategy, the Administration will review current approaches, with the goal of distinguishing areas that are yielding sufficient results from those areas that are not. In particular, the review will look closely at the relative emphasis on demand reduction and supply reduction activities, as well as the amounts invested in individual programs by the Federal Govern-

ment. The Administration intends to develop a drug control strategy that adequately addresses the problem, and is evidence-based, cost effective, and affordable.

Teaching Our Children to Avoid the Trap of Drugs: The Administration will empower parents, and community and faith-based groups to fight drugs. A 1997 General Accounting Office study found that community coalitions, particularly those that implement a comprehensive approach that targets multiple aspects of youths' lives, represent a promising prevention method to prevent combat drug abuse by teenagers. The 2002 Budget will include $50 million, $10 million more than in 2001, for the Drug Free Communities Support Program to support the President's initiative. The budget also plans for larger increases in subsequent years. The increase will help reach the children in communities not benefiting from the current program, will encourage the development of community anti-drug coalitions in under-served areas, and assist coalitions, including faith leaders, that work together to reduce drug abuse in their communities. The 2002 Budget also includes $5 million in matching funds to mobilize a Parent Drug Corps to train parents in how to fight drug abuse.

Upgrading the Drug Free Workplace Program: The Drug Free Workplace Program gives grants to organizations that help small businesses develop employee education programs and company drug policies. To date, the Small Business Administration (SBA) has not been able to meet the demand for assistance from intermediary partners; in 1999 SBA received 160 grant applications from intermediaries, but issued only 16 grants. To help meet this need, the President's Budget includes $5 million and proposes to spend $25 million over the next five years.

Closing the Treatment Gap and Increasing Support for Effective Treatment: The budget provides assistance to those who have become dependent on drugs and helps them rebuild their lives and become productive members of the community. While the Administration proposes a variety of treatment initiatives, there are two main concerns—the approaches must be evidence-based, and there must be real accountability for recipients.

The Administration's treatment-related initiatives include: increased funding for the National Institute on Drug Abuse's budget as part of the President's initiative to complete the doubling of the budget for the National Institutes of Health by 2003; providing $111 million of additional funding to increase access to substance abuse treatment and help to close the treatment gap, the difference between the number of individuals who would benefit from drug treatment and the number who receive it, by increasing funds for treatment-related programs; and targeting treatment to adolescents, a group identified by the Office of National Drug Control Policy as significantly underserved by existing treatment programs.

As part of the drug treatment initiative, the budget proposes $74 million ($11 million more than in 2001) for the Residential Substance Abuse Treatment program, which provides formula grants supporting drug and alcohol treatment in State and local correctional facilities. Faith-based treatment programs will be eligible to compete for these funds.

The Administration will promote drug-free Federal prisons through on-going drug testing of all prisoners and treatment of eligible inmates. Currently, 100 percent of all eligible Federal inmates are enrolled in intensive drug treatment programs. Probationers and parolees are required to pass drug tests and receive treatment as a condition of remaining on the street.

Drug courts are an effective and cost efficient way to help non-violent drug offenders commit to a rigorous drug treatment program in lieu of prison. By leveraging the coercive power of the criminal justice system, drug courts can alter the behavior of non-violent, low-level drug offenders through a combination of judicial supervision, case management, mandatory drug testing, and treatment to ensure abstinence from drugs, and escalating sanctions. The Department of Justice will support local drug courts that combine drug testing with effective monitoring at the historically high 2001 level of $50 million.

Leading and Working with Our Foreign Allies Against Drugs: The drug cartels are among the most powerful criminal groups ever to operate on American soil. No effort to stop these powerful organizations can succeed without the ability to strike at the cartel's leadership and reach criminal activity that recognizes no national boundaries. These powerful criminal organizations also pose a threat to our democratic allies throughout the Western Hemisphere. Left unchecked, this violence and widespread corruption could seriously undermine the rule of law in Mexico and Colombia.

The 2002 Budget requests more than $500 million in new funding to maintain programs, provided in the 2000 emergency supplemental to support Plan Colombia. Any successful counterdrug strategy in the region must include funding to bring greater economic and political stability to the region and a peaceful resolution to Colombia's internal conflict.

The Administration is committed to full funding of the Western Hemisphere Drug Elimination Act. Through 2001, Congress has appropriated $1.6 billion. The 2002 Budget provides an additional $278 million to upgrade drug interdiction efforts of the U.S. Coast Guard and Customs Service. It provides funds for the acquisition, construction, and improvement of ships, planes, and equipment to enhance counternarcotics efforts in both source nations as well as the drug transit zone.

Improving Anti-Drug Technology: The Administration requests additional funding to provide new technology to improve interdiction and coordination among law enforcement. The 2002 Budget includes $40 million for the Counterdrug Technology Assessment Center, an increase of $4 million over 2001, to provide state-of-the-art tools to enhance the capabilities of State and local law enforcement agencies for counterdrug missions.

Bolstering Southwest Border Prosecutorial Resources: Thousands of Federal drug arrests occurring near the Southwest border are referred to county prosecutors because the quantity of drugs seized is too small to meet the threshold set by local U.S. Attorneys for Federal prosecution. The 2002 Budget provides an additional $50 million to assist counties near the Southwest border with the costs of prosecuting and detaining these referrals. U.S. Attorneys will also be directed to revise drug seizure thresholds warranting Federal prosecution, thereby increasing Federal drug trafficking prosecutions. Grants will be administered by the Department of Justice and awarded based on Southwest border county caseloads for processing, detaining, and prosecuting drug and alien cases referred from Federal arrests.

Continuing Methamphetamine Laboratory Cleanup: The production and use of methamphetamine (meth) have been on the rise over the past few years, and the number of meth laboratories has increased dramatically across the country. Meth lab enforcement and clean-up efforts are complicated by the presence of hazardous materials produced during the manufacturing process. Cleaning up these labs is a costly and risky business. State and local law enforcement agencies can be overwhelmed by the need to confront even one large laboratory. As meth dealers and drug organizations have targeted rural communities, many of the local law enforcement agencies have neither the expertise nor the resources to deal with this serious threat. The 2002 Budget includes $20 million to assist State and local law enforcement agencies with the costs associated with meth cleanup, along with $28 million to aid meth enforcement.

Incarcerating the Most Dangerous Drug Offenders: The budget includes $821 million for prison construction and placing newly-constructed Federal prisons into service and for contract bed space to prevent dangerous levels of overcrowding in Federal prisons. In addition, the budget includes $5 million to establish a faith-based, prison pre-release pilot program. The pilot will be hosted at four Federal prisons that are geographically diverse, encompass varying levels of security, and include both male and female inmate populations. The goal of the initiative is to reduce the recidivism rate among ex-offenders. The budget also includes $140 million to support additional detention beds to keep pace with the growth in the criminal and alien detainee population.

Establishing Project Sentry and Project Child Safe: The budget proposes a new Federal-State partnership by creating Safe Schools Task Forces across the country to coordinate better prosecutorial resources devoted to promoting school safety through appropriate fire-

arms prosecutions. Project Sentry will devote $9 million annually to fund a dedicated juvenile gun prosecutor in each of the 94 U.S. Attorneys offices around the country. The State and local partnerships will be funded by $20 million in existing Department of Justice State and local Safe School grants.

Another partnership program will ensure that child safety locks are available for every handgun in America by providing $75 million annually in Federal matching funds through the Department of Justice. States and local governments will receive $65 million annually to assist the purchase and distribution of safety locks. The remaining $10 million will go to administrative costs and advertising, including a national toll-free telephone line, to make sure all parents are aware of the program.

Reallocating Grant Funding to Higher Priorities: The Administration seeks to finance some of the increases discussed above through selected reductions to State and local law enforcement grant programs. To a great degree, States and localities have proved themselves able to pursue vigorous law enforcement agendas without relying on Federal grant funding. For every dollar the Federal Government spends on criminal justice, State and local governments spend almost six, and Federal assistance makes up less than five percent of State and local law enforcement spending. For example, among the programs proposed for reduction are the State Prison Grant program, which has largely accomplished its goal of encouraging States to toughen their "truth in sentencing" laws; and non-formula Byrne grants, most of which are not awarded on a competitive basis, due to congressional earmarks.

10. CREATE A COMPREHENSIVE ENERGY POLICY

One of the greatest challenges facing the private sector and State, local, and Federal Governments is ensuring that energy resources are available to meet the needs of our citizens. Adequate supplies of energy ensure the safety and security of our families, our communities, and our Nation. People need to know that when they flip on a light switch the light will turn on. They need to know that the bill they get at the end of the month is not going to eat into their food budget or their rent payment.

To help address this challenge, on January 29, 2001, the President asked the Vice-President to lead the development of a national energy policy designed to help the private sector, and Government at all levels, promote dependable, affordable, and environmentally sound production and distribution of energy for the future. In advance of the development of this policy, the budget includes a number of initiatives that will help families meet their energy needs in the near-term and better promote environmentally sound production of energy in the long-term.

Low-Income Home Weatherization

Low-income families spend a significant portion of their income on energy costs. In many cases they live in homes that are poorly insulated or have broken or inefficient heating systems. This causes many to spend even more on heating and cooling bills, while others resign themselves to living in unhealthy cold or hot conditions. To address this health, welfare, and energy-demand problem, the President proposes to increase funding for the Department of Energy's (DOE's) Weatherization Assistance Program (WAP) by $1.4 billion over 10 years. This will nearly double program funding. WAP funds are distributed by formula grants to States, which in turn distribute them to local organizations that perform or contract for the actual weatherization work. Some States supplement the DOE WAP funds with funds from the State's own budget, from contributions by local utilities, or from the State's allocation of Federal Low Income Home Energy Assistance Program (LIHEAP) funds. (States have the authority to use LIHEAP to augment WAP.) WAP spends an average of roughly $2,000–2,200 per home for weatherization. The program tries to target the poorest of the poor, and tries to give priority to homes with elderly residents or children. DOE has been considering ways to improve implementation of the program, and a portion of the additional funds may be used to test improving the delivery of services at the local level.

The funding for WAP has been held relatively steady for the past several years. The initiative takes the modest increase appropriated in 2001 ($18 million more than 2000) as a down payment, then provides growth through 2010.

Solar and Renewable Energy

While they are not capable of replacing fossil fuels in the near-term, solar and renewable energy will be an important part of the Nation's long-term energy supply. The Administration proposes increasing the performance of existing solar and renewable research and development by winnowing out those projects that are less promising and focussing on those areas that offer the greatest ability to tap or expand these new sources of energy. In order to help bring these new technologies to market, the Administration proposes tax credits for the installation of rooftop solar equipment and an extension of the tax credits for fuel produced from renewable sources.

The President also proposes linking near-term and long-term approaches by encouraging new oil and gas production on Federal lands, and using Federal income from that to support increased efforts to develop solar and renewable energy. The Administration's legislative proposals will include opening a small part

of the Arctic National Wildlife Refuge to oil and gas leasing and production in an environmentally responsible manner. This process will generate an estimated $1.2 billion in bidding bonuses for the Federal Government from the winning bidders, assumed to become available in 2004. The Administration proposes to use these bonuses to fund meritorious research and development projects on solar power, wind energy, biomass power and fuels, geothermal energy, and other alternative energy technologies. Given the finite level of supplementary bonus funding available, the initiative is designed to start phasing down after 2008.

Research on the Clean Use of Coal

Coal is by far the most abundant U.S. energy resource, with domestic resources that exceed the energy potential of the world's oil resource. Americans want reliable and affordable power, and they want clean air too. To meet the rising electricity demands of our increasingly electronic economy will require the use of coal for the foreseeable future, and we must, therefore, develop the technology to eliminate the environmental barriers to continued coal use and extend the life of existing coal plants. Until now, most coal research funding was dispersed among a large number of technical topics and lacked a focused effort to overcome the most serious obstacles to market acceptance in the electricity sector.

The Administration proposes a new vision in advanced coal technology. Using a consortium of companies to direct research funds to those problems generic to the industry, a restructured coal research program will spend more than $2 billion over 10 years to reduce the environmental impact of using coal to make electricity through new technology and efficiency improvements. The refocused and reorganized program would avoid historical handicaps and increase research effectiveness. This approach addresses barriers to coal use that will benefit all companies and will select projects based on merit. Successfully implemented elsewhere in DOE, consortium-guided research focuses on the use of the commodity rather than producers or product vendors, and makes the most promising technologies the priority for funding.

To meet the coal challenge, funding would come from a consolidated budget that redirects research funds from the current Fossil Energy research and development coal budget, matched with balances in the Clean Coal technology account, to total more than $2 billion over 10 years. Existing Clean Coal projects are included in this total, and if they do not go forward, their funds would be made available for other coal research activities under this initiative. All projects would require some cost sharing by participants, with the industry share increasing as projects approach commercial stages.

Northeast Heating Oil Reserve

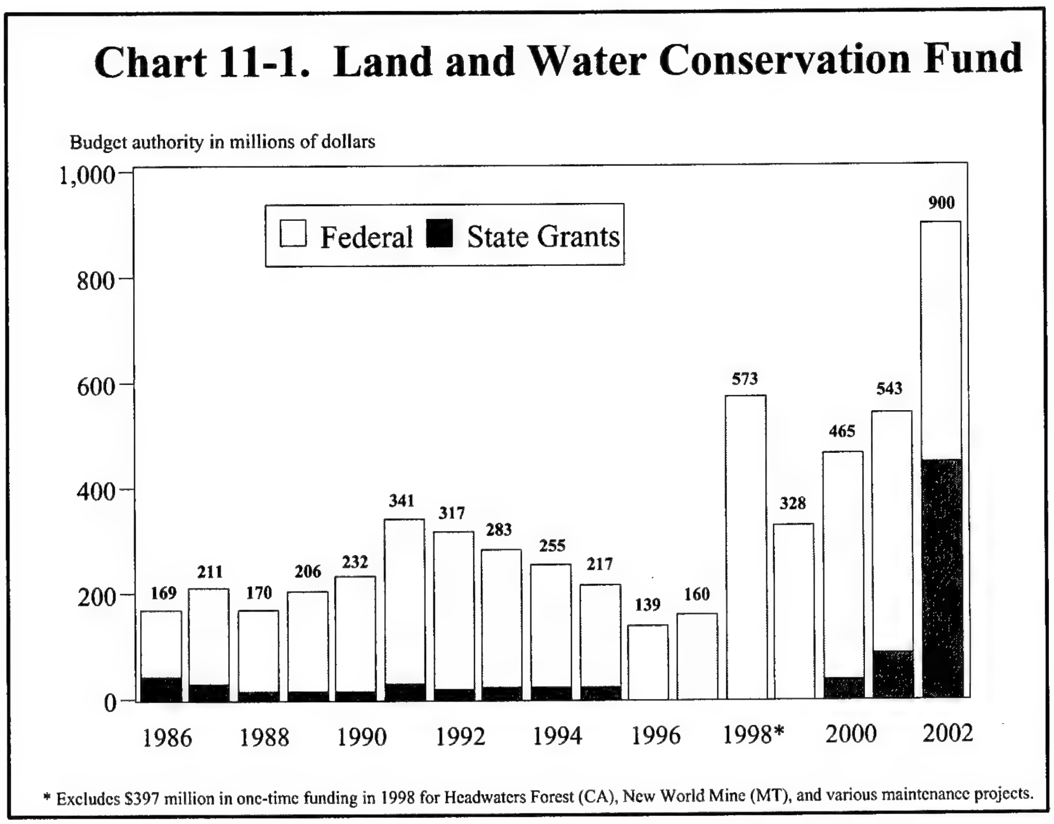
In 2001, DOE established a Northeast Heating Oil Reserve. The Reserve contains two million barrels of heating oil and is managed by the private sector. The Reserve was established because of concern about relatively low heating oil stock levels and short-term price increases experienced in the Northeast in the winter of 2000. While these temporary price increases were largely weather induced, and additional supply quickly came into the region from Europe, there was concern that if there was a colder than normal winter in 2001, there could be shortages of heating oil and price shocks. Heating oil was not released from the reserve during the winter of 2001, because January was unusually warm in the Northeast and significant imports of heating oil from Europe ensured adequate stock levels. The budget includes an additional $8 million to continue this initiative. The President supports a privately managed Northeast Heating Oil Reserve, and this initiative ensures its continued funding.

11. PROTECT THE ENVIRONMENT

As a result of tremendous work by State and local governments, the environmental community, the private sector, and the Federal Government, much progress has been made in the past quarter century in protecting our land, our air, and our water in the United States. Recognizing these achievements, the Nation must make further progress.

Continued significant improvement in environmental quality can best be achieved by fostering local stewardship of our resources and encouraging innovative methods of pollution control. The budget reflects these priorities by providing historic levels of funding for conservation, especially in partnership with State and local officials, and providing more flexibility for State and local governments to craft solutions to control pollution in their own communities. Beyond funding the programs that will implement these priorities, the budget includes policies that will encourage these goals, such as providing a 50-percent capital gains tax exclusion to private landowners who voluntarily sell their land or water for conservation purposes and a permanent extension of favorable tax treatment of the costs of cleaning up contamination at abandoned waste sites, known as brownfields.

The Administration recognizes that reducing the role of Government can often have beneficial effects on public health and the environment. This budget includes proposals that reduce or eliminate such funding. For instance, making structures in frequently flooded areas



* Excludes $397 million in one-time funding in 1998 for Headwaters Forest (CA), New World Mine (MT), and various maintenance projects.

ineligible for subsidized Federal flood insurance (a proposal in the budget for the Federal Emergency Management Agency) will improve the protection and aesthetics of riparian areas. Such proposals can also be found in the budgets of other Departments and agencies.

Land and Water Conservation Fund (LWCF): The budget proposes full funding of LWCF at $900 million starting in 2002 ($356 million over 2001), including $450 million for State and local conservation grants (see Chart 11–1). This is the highest LWCF budget request in history, reflecting the Administration's commitment to land conservation efforts. Over the next four years, the Administration will request more LWCF funds than provided during any other Administration.

Principally supported through receipts from oil and gas drilling on the Outer Continental Shelf, the LWCF funds Federal, State, and local conservation, natural resource protection and outdoor recreation. Over time, however, the State and local component has been forgotten. The budget revitalizes this component, giving State and local agencies the matching funds and greater flexibility to address conservation needs with a bottom-up approach, not top-down guidance from Washington, D.C.

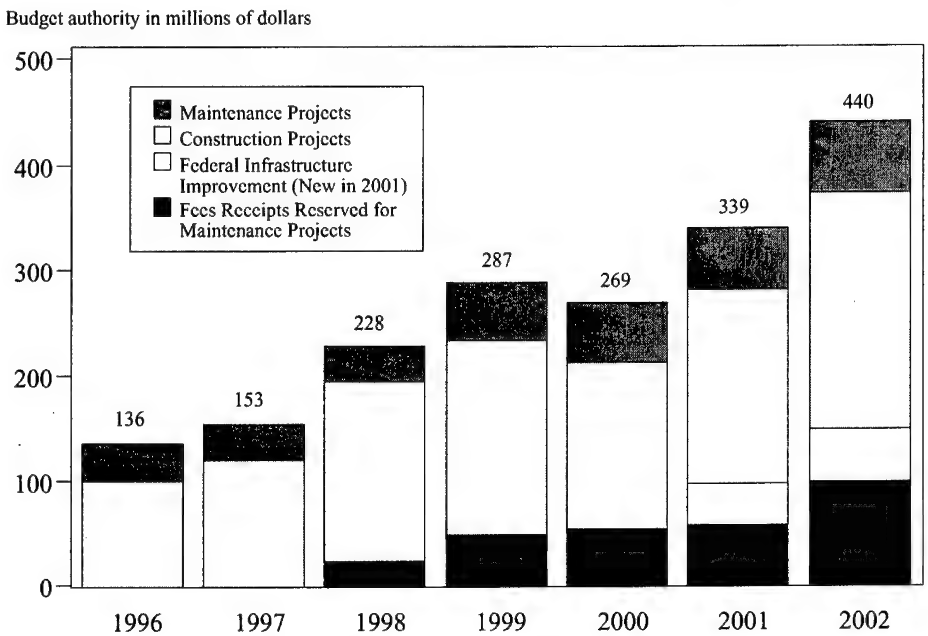
The LWCF will also build cooperative conservation partnerships through two new programs, financed with the Federal portion of the LWCF. The Administration will devote $50 million to provide matching grants for States to establish their own Landowner Incentive Programs, which assist private landowners in enhancing habitat for imperiled species while continuing to engage in traditional land management practices. Another $10 million will be used to establish a Private Stewardship Grant Program, which will provide grants directly to support local, private conservation efforts. For Federal land conservation, the National Park Service, Forest Service, Fish and Wildlife Service, and Bureau of Land Management will place a greater priority on alternative and innovative conservation tools, including easements, as well as land acquisition. In addition, Federal agencies will acquire lands from willing sellers only, and solicit input and participation from affected communities.

National Park Service (NPS) Deferred Maintenance Backlog: The conditions in many national parks have deteriorated in recent years, largely because the expansion in the number of national park units has exceeded both the NPS's ability to manage these facilities as well as the available funding. The Administration now seeks to focus attention on taking care of existing resources within the National Park System (see Chart 11–2).

Management reform is the first step for any effort to eliminate the NPS deferred maintenance backlog. NPS has recently taken steps to improve its procedures for estimating costs and approving projects, and it must continue to follow through on this effort. The Administration will accelerate efforts to complete objective assessments of facility conditions, institute maintenance management systems, and identify priorities in a clear and accountable manner. The goal is to establish by next year's budget a set of performance measures that can track the quality of facility maintenance performed, instead of just relying on the quantity of funding provided.

NPS estimates the deferred maintenance backlog at roughly $4.9 billion, with about $2.7 billion related to roads, bridges, and transportation projects normally funded through the Transportation Equity Act for the 21st Century (TEA-21). The budget focuses on funding the $2.2 billion in non-road projects, most of which will be provided over five years through annual appropriations in non-road facility maintenance and construction accounts. The Administration will supplement this funding by extending the recreation fee demonstration program through 2006 and directing approximately 60 percent of the receipts toward deferred maintenance needs. NPS will also leverage additional funding resources through improved management of concessions, leases, and cooperative agreements with non-Federal partners. Because TEA-21 is not subject to reauthorization until 2004, the 2002 Budget defers decisions on increased park road funding and assumes the existing TEA-21 funding level, $165 million annually, continues through 2003.

Chart 11-2. National Park Service Funding Available for Deferred Maintenance Projects



As a downpayment to eliminate the NPS deferred maintenance backlog over five years, the budget allocates $440 million for non-road projects, a 30-percent increase over 2001.

Although new park facility maintenance needs will continue to emerge, the combination of increased funding and management reforms will allow NPS to find the point where sustainable funding levels cover capital replacement costs. At this point of equilibrium, the backlog will be eliminated.

In addition to addressing deferred maintenance needs, the Administration will enhance natural resource protection in parks by strengthening science-based management through the Natural Resource Challenge. To fund this initiative, the budget increases NPS operations by $20 million to accelerate biological resource inventories, control non-native species, and preserve endangered and threatened species habitat on park lands.

Innovative Pollution Control: The Environmental Protection Agency (EPA) will set high standards for environmental protection, make those expectations clear, and focus on results and performance. To reach those goals, EPA will place a greater emphasis on innovative approaches to environmental protection, such as market-based incentives. Command and control approaches to pollution control, while effective in the past, are no longer as effective for achieving significant improvements in environmental protection. EPA will provide more flexibility to State and local officials to craft solutions that meet the needs of their local communities. It will also redirect resources to develop new, more effective methods to achieve environmental progress. In addition, the Administration intends to reform the current single-pollutant approach to regulating existing electric utility plants with a multi-pollutant approach, which would provide regulatory certainty to utilities, phase in reductions over a reasonable period, and make

use of market-based incentives to further clean up the environment.

Tropical Forest Initiative: As discussed in Chapter 24, the President is committed to increase resources for the protection of tropical forests. In 1998, Congress passed the Tropical Forest Conservation Act (TFCA), which the President supports. The 2002 Budget will make more funds available for "debt-for-nature" swaps and other market-oriented methods authorized under the TFCA to protect tropical forests.

12. STRENGTHEN FAMILIES

The President believes that every child deserves to live in a safe, permanent and caring family, with a loving father and mother. Unfortunately, the dramatic increase in the number of children living without fathers, or worse still languishing in foster care, means that for millions of children, this is not the case. The result is that countless children are growing up without the stability they need to fulfill their dreams.

Certainly, no law can make people love one another. Places of worship, faith-based organizations, and other value-shaping groups do the hard work of changing hearts and minds. Government should, however, wherever possible, cultivate a climate that helps families, and the individuals and groups that support them. With this goal in mind, the budget includes additional initiatives to strengthen and rebuild families.

Responsible Fatherhood

The President is determined to make committed, responsible fatherhood a national priority. Over the last four decades, there has been a dramatic increase in the number of children growing up in homes without fathers. In 1960, fewer than 10 million children did not live with their fathers. Today, the number is nearly 25 million. More than one-third of these children will not see their fathers at all during the course of a year. And, the trend is getting worse. By some estimates, 60 percent of children born in the 1990s will spend a significant portion of their childhood in a home without a father.

This is troubling news for our children. Experts agree that the lack of a father in the home has a negative impact on children. Research shows that nearly 75 percent of children in single-parent homes will experience poverty before they are 11 years old, compared with only 20 percent of children in two-parent families. Violent criminals are overwhelmingly males who grew up without fathers.

In contrast, the presence of two committed, involved parents contributes directly to better school performance, reduced substance abuse, less crime and delinquency, fewer emotional and other behavioral problems, less risk of abuse or neglect, and lower risk of teen suicide. The research is clear: fathers factor significantly in the lives of their children. There is simply no substitute for the love, involvement, and commitment of a responsible father.

Promoting a New Pro-Fatherhood Agenda: Government's traditional answer to the absence of fathers from the lives of children has been to focus on child support enforcement—ensuring the financial support fathers owe is provided. Strong child support enforcement is critical to getting fathers who have the ability to pay to support their children. However, research shows that a large portion of fathers who do not pay child support are themselves poor. Many have limited education and are unemployed or underemployed.

While fathers must fulfill their financial commitments, they must also fulfill their emotional commitments. Dads play indispensable roles that cannot be measured in dollars and cents: nurturer, mentor, disciplinarian, moral instructor, and skills coach, among other roles.

A new Federal commitment to reverse the rise in father absence should improve the job skills of low income fathers; promote marriage among parents; help low-income fathers establish positive relationships with their children and the children's mothers; and enlist the potency of faith-based and community groups that are closest to the needs of, and can provide the most direct support to, fathers and families.

Promoting Responsible Fatherhood: The 2002 Budget provides $60 million for competitive grants for initiatives that promote responsible fatherhood. Grants will be awarded to faith-based and community organizations that help unemployed or low-income fathers and their families avoid or leave cash welfare, as

well as to programs that promote successful parenting and strengthen marriage. This initiative will spur new community-level approaches to working with low-income fathers and families, and to providing them with job training, subsidized employment, career-advancing education, skills-based marriage and parenting education, mentoring and related activities. The budget also provides $4 million in 2002 for projects of national significance that support expansion of State and local responsible fatherhood efforts and extends two jobs tax credits for an additional year.

Strong Families, Safe Children

The President also is committed to helping families in crisis and to protecting children from abuse and neglect. The Federal-State child welfare system needs to do more to support and preserve families. At the same time, once children are placed outside the home, the system too often leaves them languishing in foster care or other temporary living arrangements for months or years.

There are more than 568,000 children in foster care, some 118,000 of whom are legally available for adoption now. This substitute care population has grown many times faster than the rate of growth of the U.S. child population in general. For each of the years from 1983 through 1999, more children entered than exited substitute care. Tragically, one in four foster children remains in foster care for at least three to five years; in every State, there are children who have been in foster care more than seven years. A foster child, on average, lives with three different families, and experiencing 10 or more placements into different homes is not rare.

Providing Education and Training Vouchers for Older Foster Care Children: The personal and emotional costs are especially high for young people who leave foster care at age 18 without having been adopted. Research indicates that these young people experience alarming rates of homelessness, early pregnancy, mental illness, unemployment, and drug abuse in the first years after they leave the system.

This year, some 20,000 youths will leave foster care when they reach the age of majority. To help these children, the budget proposes to provide $60 million through the Foster Care Independence Program specifically for education and training vouchers to youth who age out of foster care. This initiative would help ensure that these young people are able to obtain the support they need to develop skills to lead independent and productive lives. Each voucher, worth up to $5,000, would be available to cover the costs of college tuition or vocational training.

Promoting Safe and Stable Families: The current child welfare system has three primary goals—to ensure children's safety; to create permanency in children's living arrangements; and to promote healthy child development. The financing mechanism of the current system, however, does not always advance these goals. Approximately ninety percent of Federal child welfare funds are provided for the removal and placement of children outside their own homes, including adoption activities. By contrast, less than 10 percent is provided for services that could either prevent a child's removal from his or her family or support timely family reunification in cases in which temporary removal is necessary. Because the growth of funds for prevention services through grants such as the Promoting Safe and Stable Families program has been so restricted, States often do not have enough money to provide the services that could either prevent children's removal from their families, if appropriate and safe, or support timely reunification in cases in which temporary removal is necessary.

To strengthen States' ability to promote child safety, permanency, and well being, the budget proposes funding the Promoting Safe and Stable Families program at $505 million in 2002, a $200 million increase over the 2001 level. These additional resources will help States keep children with their biological families, if safe and appropriate, or to place children with adoptive families. By undertaking more preventative efforts to help families in crisis, the prospects for children to live in a permanent home are enhanced. A child will remain with his or her biological parents or will be removed and placed in temporary foster care. Attempts can be made to return the child from foster care back to the home. If the State can show that such preventative efforts have

failed to safely keep the child in, or return the child to, the home, judges are more likely to terminate parental rights, making the child legally free for adoption. In addition, to help States comply with Federal requirements that children be safe from abuse and neglect, and not languish in foster care, the budget provides $2 million to expand collaborative Federal/State efforts to monitor State child welfare systems.

Encouraging Adoption and Helping Children from Foster Care: In 1996, Congress passed, and the President signed into law, a tax credit designed to increase the number of adoptions. The provision provides a $5,000 tax credit to families for expenses associated with the adoption of a child. The provision also provides a $5,000 exclusion from income for employer-provided assistance.

There are more than 118,000 children legally available for adoption in the United States. While adoptive parents do not need to be given financial incentives to welcome children into their homes, the costs of adoption can be high and many parents need help defraying those costs. To encourage more adoptions, the budget proposes to make the adoption tax credit permanent and increase it from $5,000 to $7,500.

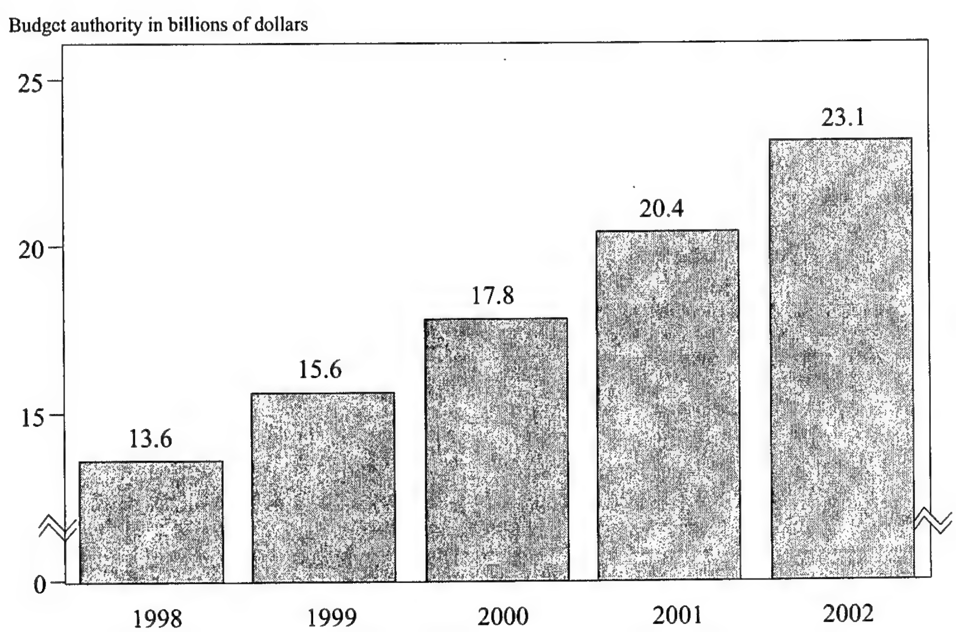
13. INVEST IN HEALTH CARE

The President recognizes the importance of health care to America's families. The 2002 Budget includes targeted investments in key Presidential priority areas such as improving biomedical research, strengthening community-based health care, enhancing drug treatment, and providing an immediate prescription drug benefit to those in the greatest need.

Doubling Resources for the National Institutes of Health (NIH): The 2002 Budget includes a Presidential initiative to double NIH's 1998 funding level by 2003 (see Chart 13–1). To accomplish this, the 2002 Budget requests $23.1 billion for NIH, a $2.8 billion increase above the 2001 level. Over the past three years, NIH has received annual increases of approximately $2.0 billion, $2.2 billion, and $2.5 billion, respectively, in an effort to double the agency's 1998 funding of $13.6 billion. During the campaign, then-Governor Bush pledged to complete the effort to double NIH's budget in five years, a goal that is supported in Congress by a bipartisan coalition. Consistent with NIH's large funding increase, cancer-related research is estimated to increase by over $500 million, to $5.1 billion in 2003.

NIH is working to meet the management challenges that can arise when an agency receives a substantial infusion of resources over a short period of time. NIH is in the process of identifying strategies and policies that could be implemented in 2002 and 2003 and beyond to maximize budgetary and management flexibility in the future.

Chart 13-1. Budget Proposes Biggest Increase in NIH History



Such strategies could include funding the total costs of an increasing number of new grants in the grant's first year and supporting some one-time activities such as high-priority construction and renovation projects. Once the doubling effort is complete, NIH will receive stable, moderate funding increases to continue to support investments in biomedical research that improve the health of all Americans.

The Federal Government has a leading role in promoting cutting-edge research and biomedical advancement. The budget recognizes NIH leadership in this area by providing a substantial funding increase to support the highest levels of research in the diseases that threaten the lives of many Americans, including cancer, diabetes, Alzheimer's, Parkinson's and other diseases afflicting the elderly, and substance abuse. Through the results of the Human Genome Project and other similar revolutionary research, NIH will accelerate the advancement of medical knowledge and health care to unprecedented levels.

Strengthening the Health Care Safety Net: There are approximately 44 million people in the United States who are uninsured and at least 48 million lack access to a regular source of health care. Many of our Nation's uninsured and medically underserved people live in inner-city neighborhoods and rural communities where there are few or no physicians or health care services. These Americans have lower life expectancy and higher death rates from cancer and heart disease compared to the general population.

To strengthen the health care safety net for those most in need, the budget proposes a $124 million increase for Community Health Centers. This increase is the first installment for a multi-year initiative to increase the number of community health center sites by 1,200. Community Health Centers, which are a critical component of the American health care safety net, deliver health care services to roughly 11 million patients, 4.4 million of whom are uninsured, through a network of over 3,000 community-based health care center sites.

By expanding the number of health care center sites by 1,200, the initiative's long-term goal is to double the number of people served. These new health center sites will offer quality primary health care services to anyone regardless of their ability to pay, including culturally competent care through the development of creative programs to serve diverse populations. Community Health Centers will continue to build partnerships with local hospitals and providers, managed care organizations, or other Community Health Centers, to ensure a more stable health care delivery system.

The budget also assumes additional public health resources for the States from the President's proposal to extend fiduciary responsibilities to the representatives of States in tobacco lawsuits.

Reforming the National Health Service Corps (NHSC): By offering scholarships and loan repayments to health care professionals in exchange for service commitments in communities that lack health care providers, the NHSC has placed over 20,000 doctors, nurses, dentists, midwives, and mental health clinicians in communities that lack access to care.

Through a targeted management reform initiative, the NHSC will be better able to address the neediest communities. The NHSC management reform will examine the ratio of scholarships to loan repayments, as well as other set-asides, to ensure maximum flexibility in placing NHSC providers. The Administration will also seek to amend the Health Professional Shortage Area definition to reflect other non-physician providers practicing in communities, which will enable the NHSC to more accurately define shortage areas and target placements better. To further avoid overlap in the provision of health care, the Department of Health and Human Services (HHS) will enhance its coordination with immigration programs, including the J-1 and H-1C visa programs, which review applications for health care providers practicing in underserved communities. The NHSC initiative will also encourage more health care professionals to participate in the NHSC by making scholarship funds tax free.

Increasing Access to Drug Treatment: The budget includes an additional $111 million to increase the availability of substance abuse treatment services. According to the National

Household Survey on Drug Abuse, there is a treatment gap of almost three million people between the number of individuals who need drug treatment and the number who receive it. One recent study found that only 10 percent of child welfare agencies were able to locate treatment within a month for clients in need. Another study found that only 37 percent of substance abusing mothers with minor children received any treatment at all in 1997.

Of this additional $111 million to increase access to substance abuse treatment and help to close the treatment gap, the budget proposes $100 million for the Substance Abuse and Mental Health Services Administration. This increase includes $60 million to help States finance treatment to those in need through the Substance Abuse Block Grant, and an additional $40 million will be made available through the Targeted Capacity Expansion grants designed to support a rapid, strategic response to emerging trends in substance abuse. A portion of this funding will be used for competitive grants to organizations that provide residential treatment to teenagers. The budget also includes an additional $11 million for the Office of Justice Programs' Residential Treatment grants at the Department of Justice.

Studies also show that religion can be a powerful tool in helping individuals overcome drug and alcohol addiction. As part of the President's broader Faith-Based Initiative, Federal funding will be available to faith-based entities on an equal basis with all other providers, and their use of these funds will be encouraged.

Supporting the Healthy Communities Innovation Fund Initiative: In communities across the Nation, local organizations are addressing health care needs in innovative ways. To build on this success, the President has proposed the Healthy Communities Innovation Fund Initiative that supports grants to health care improvement projects in State and local communities. These grants encourage and implement innovative technologies that target areas of health risk, including heart disease, childhood and adult Type II diabetes, and childhood obesity. In 2002, HHS will target approximately $400 million in existing grant activity to innovations at the local level, including programs to promote comprehensive care through integrated State health care delivery systems for women and children; grants to States to help prevent the incidence of disease; and research programs to promote alternative disease treatments.

HHS will increase coordination among these funds to ensure that the best and broadest range of innovative solutions are funded across the country.

Extending Health Tax Incentives: To help lower-income families purchase private health insurance, the budget includes a new tax credit for individuals and families who do not have access to employer-sponsored insurance. The budget also includes new tax provisions to extend permanently Medical Savings Accounts, help those with long-term care costs, and improve flexible spending accounts.

Reforming Medicaid and the State Children's Health Insurance Programs (S-CHIP): The Administration will also focus over the next few months on Medicaid and S-CHIP and recommend reforms that will improve the way these programs provide health care coverage to the poor and near-poor. In cooperation with the States, the Administration will develop ideas to increase State flexibility and ensure that Medicaid and S-CHIP are being effectively used to promote health insurance coverage. The review of these programs will emphasize giving States the flexibility to use private insurance, when possible, and to coordinate with employment-based insurance for those who have access to it. The Administration will also work with the States to build a systematic approach to monitoring, stabilizing, and improving insurance coverage through reforms of these programs.

Providing an Immediate Helping Hand and Reforming Medicare: The President believes the Nation has a moral obligation to make retirement a time of health and security for America's seniors. For thirty-five years, Medicare has played an integral part of providing security to millions of Americans. Yet, to fulfill our Nation's promise to seniors and the disabled, Medicare must be reformed. No aspect of the flaws in the Medicare program more acutely highlights the need for reform than the limited access of seniors to prescription drugs that can improve and save lives.

As prescription drugs have become an integral part of modern medicine, private health insurance in the United States has changed to incorporate adequate prescription drug insurance. Yet Medicare still does not provide coverage for most drugs as part of its benefit package. As a result, around three in ten Medicare beneficiaries have no insurance coverage for prescription drugs.

To renew the promise made to our seniors thirty-five years ago, the President will recommend funding to preserve and sustain the Medicare program and to incorporate a prescription drug benefit for all seniors. Until Medicare reform is enacted, the budget proposes to enact the Immediate Helping Hand (IHH) prescription drug proposal. The IHH proposal provides for immediate funding to States to allow for interim prescription drug coverage for those beneficiaries who need it most. This immediate assistance will give States the temporary financial support they need to protect beneficiaries with limited incomes or very high drug expenses and no other alternative for drug coverage until Medicare reform is achieved.

The IHH proposal will cover the full cost of drugs for individual Medicare beneficiaries with incomes up to $11,600 who are not eligible for Medicaid or a comprehensive private retiree benefit, and for married couples with incomes up to $15,700 (135 percent of poverty) who do not have access to coverage. These beneficiaries would receive comprehensive drug insurance for a premium of $0, and pay a nominal charge for prescriptions. The proposal would also cover part of the drug costs for individual Medicare beneficiaries with incomes up to $15,000 and married couples with incomes up to $20,300 (175 percent of poverty). These beneficiaries would receive subsidies for at least 50 percent of the premium of high-quality drug coverage. The IHH proposal would also provide catastrophic drug coverage for all Medicare beneficiaries, giving them financial security against the risk of very high out-of-pocket prescription expenditures.

The IHH proposal would begin immediately. Unlike other plans, IHH builds on coverage that is available in over half the States, and under consideration in almost all States. No other proposal would provide interim access to drug coverage for up to 9.5 million of the most vulnerable Medicare beneficiaries until Medicare reform can be enacted. This would minimize the temporary burden on States. IHH is 100 percent federally-funded, with flexibility in how States can choose to establish or enhance drug coverage.

Coordinating Department of Defense (DOD) and Veterans Affairs (VA) Health Care Benefits: The Federal Government provides health care to millions of people through the VA and DOD. Eight million active and retired military personnel and their families are eligible for DOD care, while over five million veterans are enrolled for VA care. However, over 700,000 are enrolled in both systems and may use either DOD or VA services whenever they choose. As a result, DOD and VA have difficulty estimating the number of people that will obtain health care services in each of the systems, and therefore encounter problems in allocating the necessary resources.

The Administration will seek legislation to ensure that DOD beneficiaries who are also eligible for VA medical care enroll with only one of these agencies as their health care program. Assigning a primary Department responsible for the coordination and cost of care of a fixed population will enable a better assessment of sharing and consolidations. Beneficiaries will benefit from continuity in health care services, since the enrolling agency will be able to manage their care more closely to ensure quality and comprehensive coverage. The Administration believes that enrollment will allow DOD and VA to know how many people will obtain health care from them, and to budget correctly. This will lead to the more efficient provision of health care to our deserving veterans and military personnel.

Reforming the Federal Employees Health Benefits Program (FEHBP): Established in 1960, the FEHBP is the largest employer-sponsored health insurance program in the Nation, covering over nine million Federal employees, annuitants, and their families. The program offers a wide range of health insurance plans that enable employees to choose the benefits package that best suits their particular health care needs and budgets. Because

choice and competition are hallmarks of the program, the FEHBP reports one of the highest levels of satisfaction of any health care program in the country. The FEHBP is one part of the Government's total compensation package, and, like other employers, the Government has seen health insurance costs outpacing inflation over last few years. The Administration intends to take steps to keep the program contemporary and manageable, and is looking at ways to contribute to that objective. Among the initiatives under consideration are: options to ensure that the program offers high quality and cost effective health plans; incentives to Federal employees and annuitants to choose their plans wisely; and integration of annuitant health benefits with future reforms to Medicare.

14. REFORM THE IMMIGRATION SYSTEM

The United States is a Nation of immigrants. Unfortunately, today when new immigrants arrive on our shores, their first experience is often one of frustration and anxiety. The Administration believes that legal immigrants should be greeted with open arms, rather than endless lines. We must be responsive to those who seek to immigrate to this country by legal means, and to those who have emigrated and now seek to become U.S. citizens.

While we seek to improve the system that welcomes legal immigrants, the United States is a Nation of laws and must act to combat illegal immigration. Working through the Immigration and Naturalization Service (INS), the Federal Government should take additional steps to defend the security and stability of our Nation against the threats of organized crime, drug traffickers, and terrorist groups. The Administration is committed to improving U.S. immigration law enforcement and ensuring the safety of our borders.

Accelerating INS Processes Pertaining to Citizenship and Benefits: The Administration is committed to building and maintaining an immigration services system that ensures integrity, provides services accurately and in a timely manner, and emphasizes a culture of respect. It often takes three years or more for INS to process immigration applications and/or petitions. At times, in some areas of California, Federal delays in processing adjustment of status applications have averaged 52 months; in some areas of Texas, delays have averaged 69 months; in some areas of Arizona, 49 months; in some areas of Illinois, 37 months.

To improve INS' focus on service and to reduce the delays in INS processing of immigration applications, the Administration proposes a universal six-month standard for processing all immigration applications. To meet this standard, the Administration supports a five-year, $500 million, initiative to fund new personnel, introduce employee performance incentives to process cases quickly and accurately, and make customer satisfaction a priority. The $100 million proposed in 2002 is the first installment in this effort to provide quality service to all legal immigrants, citizens, businesses, and other INS customers.

Strengthening Border Control and Enforcement: The budget provides funds to support additional Border Patrol agents, as well as technology to supplement the new agents. Congress authorized hiring 5,000 new Border Patrol agents between 1997 and 2001. To date, INS has received funding for roughly 3,860 new agents. In order to hire and train the remaining agents that are needed, the President's Budget requests $75 million to fund 570 new agents per year in each of 2002 and 2003. With the new agents to be added, it is estimated that about 11,000 agents will be deployed along the Nation's Northern and Southern borders by the end of 2003. This is 12 percent more than 2001 and represents more than 175 percent growth in agent staffing since 1993. In addition, $20 million is requested for 2002 to fund intrusion detection technology including high-resolution color and infrared cameras and state-of-the-art command centers as force multipliers to supplement the new agents and provide continuous monitoring of the border from remote sites. The proposed combination of intrusion detection technology, and a substantial number of new Border Patrol agents will permit INS to enforce the rule of law and enhance border management over larger portions of the border.

The 2002 Budget also provides an additional $7 million to establish intelligence units along the Northern and Southwest borders. The units will collect, analyze, and disseminate information to identify and interdict illegal entrants to the United States; monitor potential terrorist activity and smuggling operations; and track the movement of illicit narcotics, weapons, and other contraband across our borders.

Ensuring Detention and Removal of Illegal Aliens: The Administration is committed to removing those who have entered the country illegally and to detain criminal aliens. The budget funds INS detention and deportation staff and provides resources to remove criminal and illegal aliens swiftly. The 2002 Budget provides $89 million to support an additional 1,607 average daily detention bed spaces for a total level of more than 21,000 bed spaces. INS will continue to target its efforts primarily on removing deportable aliens held in Federal, State, and local facilities to ensure that these criminal aliens are not allowed back on the street. The budget also continues funding to fully implement detention standards to ensure those detained, particularly those who have pending asylum cases, are treated fairly.

Creating an INS Structure for the Future: The INS has suffered from systemic problems the last few years, particularly those related to INS' dual missions of service and enforcement. These systemic problems include: competing priorities; insufficient accountability between field offices and headquarters; overlapping organizational relationships; and, lack of consistent operations and policies. The Administration believes that it is critical to address these problems.

The Administration proposes restructuring and splitting the INS into two agencies with separate chains of command and accountability, reporting to a single policy leader in the Department of Justice. One agency will be focused exclusively on service and the other will be focused exclusively on law enforcement. The Administration will work with Congress in a bipartisan manner to enact legislation that fundamentally improves the way the Nation's immigration system is administered.

15. PROMOTE VOLUNTEERISM

Volunteerism and community service have been a strong and important tradition in America ever since its founding. Across the country, faith-based groups, national and local non-profit organizations are on the front lines, working to improve lives in some of the hardest pressed communities in America. Americans are volunteering 20 percent more than they did 20 years ago—and seniors are responsible for nearly all of this increase. Senior Americans are increasingly eager to contribute their time and talents. Working in partnership with States and local organizations, which are closest to the needs of Americans, the President proposes that the Federal Government do more to facilitate service opportunities for seniors. The President believes that retirement should be a time of economic security and physical well being and should also provide seniors more opportunities to serve their communities.

Expanding Opportunities for Senior Service

The population of older adults is growing rapidly, and it is expected that the aging of the baby boomers will accelerate this growth. The number of individuals aged 65 or older is estimated to double from 35 million to nearly 70 million in 2030. Seniors today are living longer than ever before, and can often anticipate up to 30 years of productive post-retirement years. The principal Federal vehicle for senior volunteerism is the National Senior Service Corps (NSSC), which was established in 1973. The program is now part of the Corporation for National and Community Service, a publicly and privately funded entity that works with non-profits, faith-based groups, schools, and other civic organizations to provide opportunities for Americans of all ages to serve their communities.

The Senior Corps uses the talents, skills, and experiences of more than 500,000 older Americans to help solve local problems. Members help meet a wide range of community needs, serve one-on-one with young people with special needs and help other seniors live independently in their homes. The NSSC consists of the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program.

The budget helps ensure that opportunities for seniors to serve their communities and schools will be increased to accommodate the demand of the growing aging population and the changing nature of retirement. The budget supports three new initiatives in the Corporation to help increase service opportunities for America's seniors.

Increasing the Senior Corps Funding: The budget provides $203 million for the NSSC, a $14 million increase over 2001 and the first step of the President's five-year strategy to increase the annual funding for the Senior Corps to $250 million by the end of five years. This level will expand opportunities for an additional 17,000 senior volunteers to help meet the needs of children and frail adults in communities across the country.

Establishing the Silver Scholarship Program: A new initiative, the Silver Scholarship program, will allow older Americans to volunteer 500 hours of service tutoring and mentoring students in after-school programs in exchange for a $1,000 scholarship that can be deposited in an education savings account for use by their children, grandchildren, or another child. The budget includes $20 million for 10,000 Silver Scholarships.

Providing Service Opportunities for America's Veterans: The budget provides $15 million to establish the Veterans Mission for Youth program. The program will provide matching grants to community organizations that connect veterans and retired military personnel with America's youth through mentoring, tutoring, after-school and other programs.

VII. SUMMARIES BY AGENCY

16. DEPARTMENT OF AGRICULTURE

Highlights of 2002 Funding

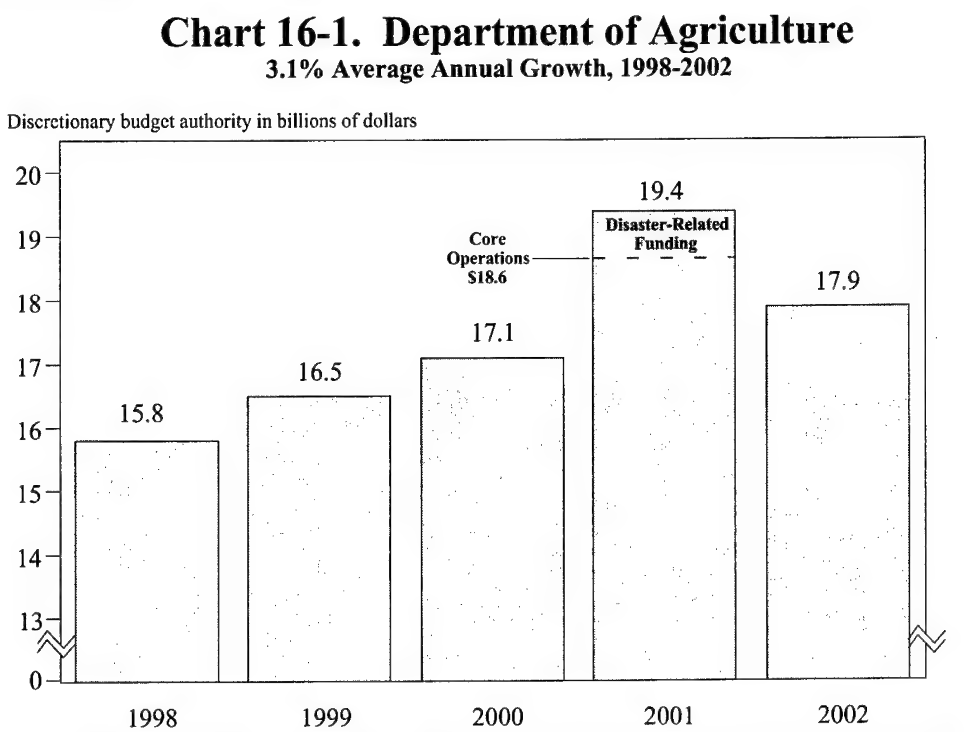
- Fully funds the current participation rate for the key nutrition program for women, infants, and children.
- Supports Department of Agriculture (USDA) food safety activities, including providing 7,600 meat and poultry inspectors.
- Finances the acquisition of decent, safe, and affordable housing by 57,000 low- to moderate-income residents in rural America; creates 40,000 jobs in rural areas; and gives access to 1.4 million poor, rural residents to clean, safe drinking water.
- Allocates conservation assistance to 650,000 landowners, farmers, and ranchers.
- Maintains funding for priority activities in the Forest Service's wildland fire management plan, including hazardous fuels reduction. In addition, the budget proposes an unallocated National Emergency Reserve for unforeseen disaster needs.
- Redirects USDA research to provide new emphasis in key areas such as biotechnology, the development of new agricultural products, and improved protection against emerging exotic plant and animal diseases as well as crop and animal pests. The budget also redirects funds for the continued implementation of other major initiatives, including crop insurance reform.
- Carries out the President's commitment to expand overseas markets for American agricultural products by strengthening USDA's market intelligence capabilities and the Department's expertise for resolving technical trade issues with foreign trading partners.
- In general, funds USDA bureaus at or above the 2001 enacted level, not including one-time emergency funding and unrequested projects provided in 2001.

Initiatives

The President's Budget fully funds participation in the Special Supplemental Nutrition Program for Women, Infants, and Children at 7.25 million individuals monthly, the participation level projected for 2001.

Crop insurance reforms in the 2000 Agricultural Risk Protection Act (ARPA) fulfill the Administration's agenda to improve crop insurance by increasing premium subsidies and educational outreach, encouraging new product development and improving program integrity. ARPA will add $640 million in outlays to the crop insurance program in 2001 and more than $7 billion over the five-year period from 2001 to 2005.

The Administration will also propose a targeted tax incentive that would allow farmers and ranchers to reserve a substantial percentage of their net farm income in a tax deferred account that could be drawn on during economic downturns (Federal Farm



Note: 1998 to 2002 include disaster-related funding. In 2001, $795 million of disaster-related funding was provided for emergency fire suppression, and for watershed, flood prevention, and conservation needs. For 2002, such funding is provided through the National Emergency Reserve, an unallocated reserve for unforeseen emergency disaster needs.

and Ranch Risk Management, or FFARRM, accounts).

Redirected Resources

One-Time Funding: The 2002 Budget proposes to eliminate approximately $1.1 billion of one-time, mostly emergency, funding. This funding was provided to meet short-term 2000 and/or 2001 needs. Specific programs eliminated include $109 million for emergency pest suppression, $235 million for rural development assistance, $190 million for watershed and flood prevention and emergency conservation protection activities needed for 2000 and 2001 disasters, and about $600 million in wildland firefighting expenses.

Department of Agriculture (USDA) Research Earmarks: In 2001, USDA funded approximately 300 congressionally earmarked projects for research, education, and extension grants to land grant universities. Earmarked research is not subject to merit-based selection processes, therefore these projects do not represent the most effective use of limited Federal funding and often fail to address national priorities. The budget proposes to eliminate funding for these earmarks, saving taxpayers about $150 million.

Research Facilities Construction: USDA needs to renovate existing research facilities. At the same time, the Department is contemplating expansions to these existing facilities and the construction of new laboratories. The budget supports critically needed renovation and construction while reducing funding from the 2001 level by $44 million as the Department conducts a comprehensive review of overall facility needs.

Rural Telephone Bank (RTB): USDA's RTB was established in 1972 to provide a supplemental source of credit to help establish private rural telephone companies. The RTB has accomplished its mission. Consequently, no funding is provided to make new RTB loans in 2002, reducing budget authority by $3

million from 2001 enacted levels and the loan level by $175 million. Not funding new loans should generate increased member and borrower support for statutorily authorized privatization.

Completed and Reformed Programs: Many temporary and existing USDA programs have completed their term or mission. The 2002 Budget proposes not to renew these programs or address their goals through other existing or reformed programs. For instance, pilot programs such as the modular housing demonstration loans program are not renewed. Programs that have goals that are addressed in other areas, such as the Forestry Incentives Program, are discontinued. Programs that have successfully completed their mission, such as the brucellosis eradication programs, are not renewed.

Potential Reforms

Reforming USDA Food Aid Programs: Title I of Public Law 480 (P.L. 480 Title I) is administered by USDA and is one of several programs that provides food assistance to developing countries. P.L. 480 Title I has been criticized as being ineffective. The Administration proposes to undertake a review of the Title I program to evaluate its continued effectiveness in meeting its market development objectives. Most Title I programs are carried out through bilateral agreements with recipient country governments, even though the nature of international agricultural trade has been changing in recent years with a much reduced involvement by public sector entities and greater emphasis on private sector transactions. Although agreements with private trade entities are authorized under the Title I program, that authority has been used only sparingly. In addition, the Title I program will likely need to be evaluated in view of ongoing negotiations on international agricultural credit, which have been underway under the auspices of the Organization for Economic Cooperation and Development. The Administration's review will consider these, plus other, factors with the intention of developing options for program modifications and reforms.

The Administration will also review the donation of surplus U.S. commodities under the authority of section 416(b) of the Agricultural Act of 1949. The level of those donations has increased markedly since 1999, and some claim the program may be depressing U.S. commercial sales. It is now appropriate to evaluate the effects of the donations both domestically and overseas and the decision-making procedures used in carrying them out. Among other things, the review will consider what programmatic objectives are appropriate for section 416(b) donation activities and the future availabilities of surplus U.S. commodity inventories.

Reforming Service Delivery in USDA's County Offices: In the early 1990s, under the previous Bush Administration, an effort was begun to streamline USDA's county office structure to improve service and reduce costs. Nearly one-third of USDA's field offices have been closed since that time. However, there are still about 5,600 USDA county-level offices serving one million farmers (not counting 1,300 USDA rural development offices that serve farmers and other rural residents). The Department will review the efficiency of USDA's remaining field office structure, recognizing that many farmers and other rural customers want to use computers and fax machines to transact business with USDA. To meet those needs, the budget includes funds to continue efforts to streamline and modernize USDA's county office structure through completion of a common computing environment and reengineering the way USDA conducts business. In 2002, customers will be able to conduct business with the county-based agencies electronically. The Administration expects long-term savings and improved service from merging the information technology services of the three county-based agencies (the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development).

Streamlining the Forest Service's Field Structure: Consistent with recommendations of the National Academy of Public Administrators and the General Accounting Office, the Administration will review and start to implement streamlining and efficiency-enhancing measures for the Forest Service's field structure, work force, and administrative operation to get more resources for "on-the-ground" activities. Centralized servicing and enterprise teams will be evaluated as possible ways to

provide additional efficiency savings. Streamlined decision-making and an emphasis on the forest-level activities would establish increased accountability and improved decision making for the Agency.

Improving Management and Financial Accountability: The Inspector General has identified financial management as a top management challenge. USDA is also committed to improving the financial management of the Department. USDA will develop centralized and integrated management information systems to provide timely and reliable information on USDA's finances, people, and purchases. This should allow the Department to obtain a clean opinion on its financial statements and improve its computer security.

17. DEPARTMENT OF COMMERCE

Highlights of 2002 Funding

- Provides continued funding for core Department of Commerce activities.
- Provides $83 million of new funding to continue procurement of an advanced weather satellite system being developed jointly with the Department of Defense.
- Increases funding for the collection and calculation of basic economic statistics by 18 percent, or $9 million, to improve key measures used by government and business policy makers.
- Reduces funding for several Commerce programs, particularly those that provide subsidies to private corporations and other assistance that is of reduced priority.
- Suspends new funding for the Advanced Technology Program, pending a reevaluation of the program.
- Rescinds $125 million of funding from the Emergency Steel and Oil and Gas Loan Guarantee programs after the second round of applications is funded.
- Reallocates funding within the National Oceanic and Atmospheric Administration to ensure that highest priority activities are fully funded.

The President's Budget provides funding to produce economic and demographic statistical measures; manage rapidly growing patent and trademark applications; develop precise technical measures and standards; protect coastal and fisheries resources and strengthen weather and climate forecasting abilities; and support trade and export compliance activities. At the same time, selective reductions in several programs are proposed to trim lower priority subsidies and support.

Initiatives

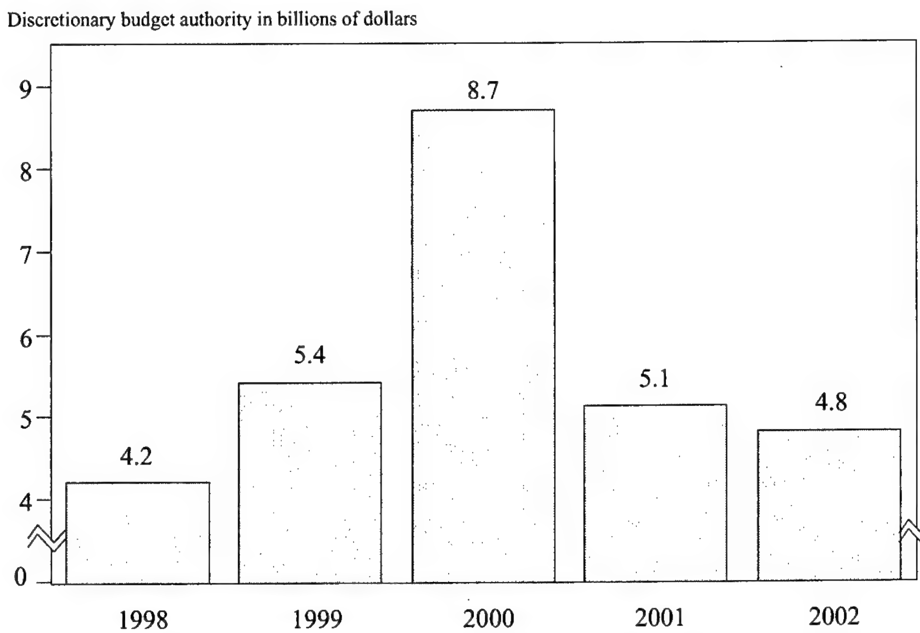
Launching a New Weather Satellite: Within the more than $3 billion budgeted for the Department's National Oceanic and Atmospheric Administration (NOAA), increased funding of $83 million is provided to continue procurement of the next generation of weather satellites. The National Polar-orbiting Operational Environmental Satellite System, which is being jointly developed with the Department of Defense, will provide advanced measurements to benefit both near-term weather and longer-range climatic analyses.

Improving Governmental Statistics: The budget also provides an 18 percent, or $9 million, increase for the Bureau of Economic Analysis which is responsible for measuring key economic indicators, including Gross Domestic Product and related trade and investment flows. With the rapid growth of electronic commerce and expanding use of stock options and other changes associated with the new economy and service sectors, investment in Commerce's statistical areas is essential to providing sound data for policy makers.

Strengthening Export Licensing and Patent Licensing: The export licensing activities of the Bureau of Export Administration will be strengthened through targeted investments. The program level of the Patent and Trademark Office will increase by almost

Chart 17-1. Department of Commerce

3.3% Average Annual Growth, 1998-2002



Note: 1999 and 2000 include substantial funding for the 2000 decennial Census.

10 percent, to help address its growing workload.

Redirected Resources

Reducing Corporate Subsidies: The budget proposes reductions in several Commerce programs. Generally, these programs provide corporate subsidies or other lower priority grants. The budget proposes to end the Emergency Steel and Oil and Gas Loan Guarantee programs after the second round of applications. Adequate funds would remain to address pending applicants for both programs. The oil and gas program was created when oil and gas prices were far below current levels, and demand for this program has been particularly limited. The budget also suspends funding for the Advanced Technology Program (ATP), which supports research and development activities of private firms, pending a reevaluation of this program. New ATP awards would not be made in 2001 or 2002, though support for ongoing projects would be continued using reprogrammed ATP funds from 2001.

Other Program Reductions: The budget proposes to limit funding for Economic Development Administration grants to the $335 million level authorized by law. Several reallocations are also made within NOAA, to ensure that funds are targeted to the highest priority environmental needs. Funding is eliminated for the Coastal Impact Assistance Fund, which overlaps with the more general Coastal Zone Management Act grant program, as well as a number of unrequested projects.

Potential Reforms

While the Department recently received a clean opinion on its 1999 consolidated financial statements, auditors have reported a material weakness in the Department's financial systems due to a lack of Department-wide integrated financial systems, which is being addressed. In addition, the Department is engaged in a careful review of its staffing,

with the goal of "de-layering" unnecessary management levels and reducing lower priority management positions. Commerce will continue its improvements in information technology procurement which currently is over $1 billion annually. The Department also expects to make continued improvements in fisheries management, where there are significant resource management challenges as evidenced by steep declines in select fish stocks.

18. DEPARTMENT OF DEFENSE

Highlights of 2002 Funding

To signal to our servicemen and women our renewed respect, the President:

- Provides an additional $1.4 billion for military compensation to improve quality of life and reenlistment and retention of military personnel.
- Increases, by $400 million, funding to improve the quality of housing for military personnel and their families and to decrease out-of-pocket housing-related expenses.
- Funds new and expanded benefits for our over-65 military retirees.

To emphasize programs that provide our military forces' information superiority, stealth, speed, precision, agility, mobility, and lethality in the future, the President will propose a $2.6 billion initiative in research and development for missile defense alternatives and new technologies to support the transformation of U.S. military capabilities.

(Note: The Army Corps of Engineers Civil Works program is discussed in Chapter 30.)

Overview

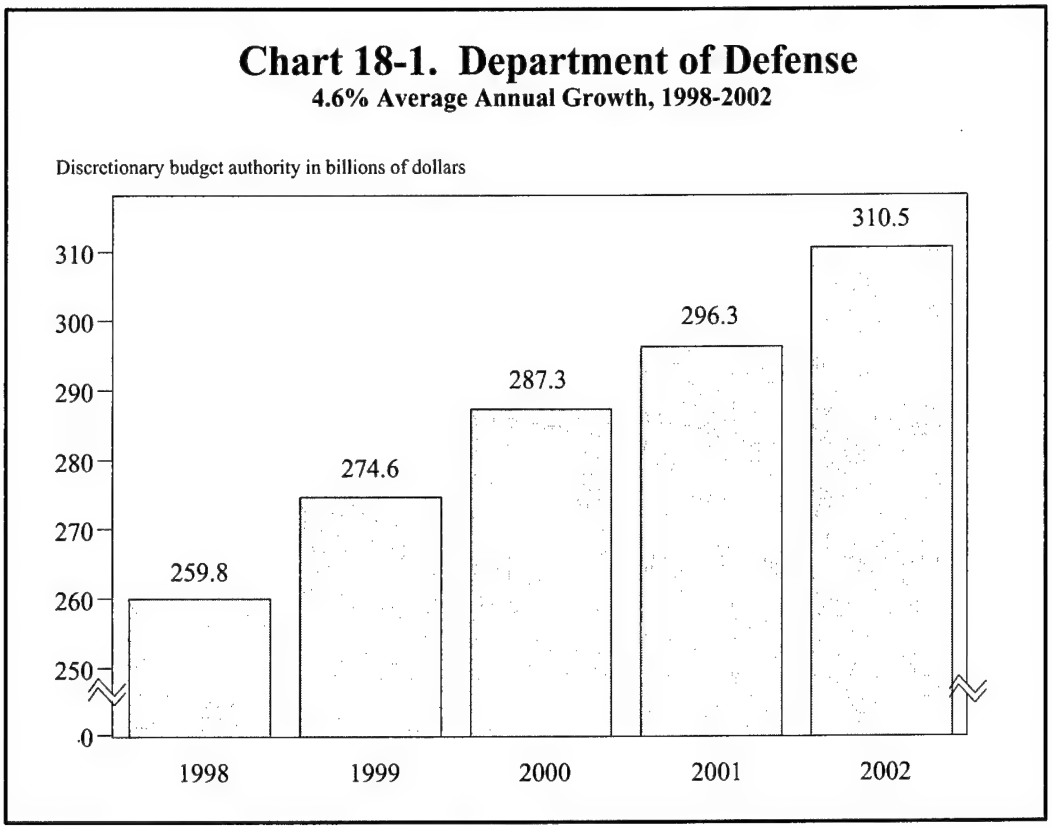
Today's military, the strongest on earth, faces a number of challenges that the President's 2002 Budget begins to address. These include assuring that military personnel are adequately paid, their families are adequately housed, and they receive the training and equipment needed to do their jobs. Under the framework of a new national security strategy, the President has asked the Secretary of Defense to conduct three reviews.

First, the President believes that the Nation's defense strategy should drive decisions on defense resources, not the other way around. For this reason, the Secretary of Defense will conduct a strategy review to create a vision for the role of the Nation's military in the 21st Century. This review will examine the appropriate national security strategy, force structure, and budget priorities. It will guide future decisions on military spending. To speculate now on the results of this strategy review could compromise the outcome. Consequently, the Administration will determine final 2002 and outyear funding levels only when the review is complete.

Second, the President believes America must rethink the requirements of deterrence in our current security environment. The President proposes to maintain the lowest number of nuclear weapons consistent with our present and future national security needs. The review will also identify the Nation's missile defense needs.

Third, the Administration will conduct a review of the overall quality of life for our military personnel.

2002 Funding Level: The 2002 discretionary budget authority level for the Department of Defense (DOD) provides an increase of $14.2 billion, or 4.8 percent, from the 2001 enacted level of $296.3 billion. This funding increase will allow DOD to address its most pressing priorities. These include relieving some of the housing problems our military troops and their families are currently facing, addressing the need for increased military pay,



and undertaking a thorough review of research and development programs to determine the most promising investments for the future. The budget includes more than $4 billion as a first step towards achieving these initiatives. The budget proposes the transfer of the Maritime Security Program and associated funding from the Maritime Administration to DOD. In addition, the budget provides $3.9 billion for the first year of expanded health benefits for over-65 military retirees recently authorized by Congress in the 2001 Defense Authorization Act.

Initiatives

The following programs, included in the budget, reflect the President's highest priority defense initiatives.

Military Pay: The budget provides an additional $0.4 billion to increase the military pay raise to 4.6 percent. The pay raise is set at the Employment Cost Index plus 0.5 percent. The President is also proposing an additional $1 billion for military compensation programs to address specific recruiting and retention needs. Increases in housing allowances will also be funded to reduce service members out-of-pocket expenses for housing.

Research & Development (R&D): The budget proposes a $2.6 billion initiative ($20 billion over five years) to fund R&D of new technologies. Among areas in which new investment might be made include: leap-ahead technologies for new weapons and intelligence systems; improvements to the laboratory and test range infrastructure; technologies aimed at reducing the costs of weapons and intelligence systems; efforts, such as counter-terrorism and counter-proliferation that are focused on countering unconventional threats to national security; and funding to continue research, development, and testing of a missile defense program.

Military Family Housing: The budget provides an additional $400 million to improve the quality of housing for military personnel and their families. Programs including allowances for out-of-pocket housing costs, new construction, renovation of existing housing, and privatization will all be considered.

Potential Reforms

The Administration will emphasize several reforms to improve the efficiency of Defense operations.

Competitive Sourcing and Privatization: The Administration believes that the Federal Government should seek every opportunity to open to competition functions that are commercial in nature. Studies show that the Government can achieve significant cost savings through increased competition, while maintaining services of comparable quality. The savings can be used by the military services to apply more resources to high priority programs identified by the defense strategy review. In 2002, DOD will continue its efforts to study opportunities for outsourcing and privatization with particular emphasis on commercial type functions.

Commercialization: DOD and the Intelligence Community can become even more efficient through greater reliance on commercial products and services. As part of the strategy review requested by the President, DOD will review opportunities to expand its use of commercial practices and products that will facilitate the modernization of our military forces.

Base Infrastructure and Closure: DOD wastes money on infrastructure it does not need and its authority to dispose of these properties is diminished by the rules and regulations that now govern the process. The Secretary of Defense is reviewing the current force structure, but with 23 percent in estimated excess infrastructure, it is clear that new rounds of base closures will be necessary to shape the military more efficiently.

19. DEPARTMENT OF EDUCATION

Highlights of 2002 Funding

- Provides a $4.6 billion, or 11.5 percent, increase in total budget authority for the Department of Education.
- Corrects for the distortion of advance appropriations, provides a $2.5 billion, or 5.9 percent increase, for Education Department programs, the highest percentage increase of any Cabinet agency, consistent with the priority the President has placed on education.
- Supports a $1.6 billion increase for elementary and secondary education initiatives announced as part of the President's No Child Left Behind proposal. These reforms will result in increased accountability for student performance, reduced bureaucracy and greater flexibility, a focus on proven programs, and more choices to empower parents.
- Provides a $340 million increase in key elementary and secondary education programs in other Federal agencies, resulting in a 10-percent increase for K-12 initiatives.

Initiatives

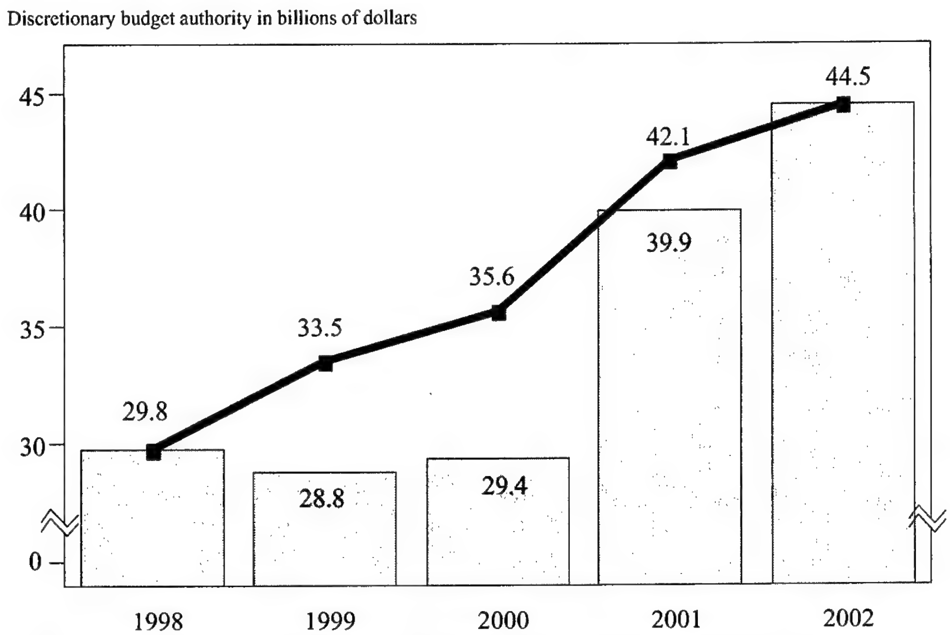
Elementary and Secondary Education: Today, nearly 70 percent of inner city fourth graders are unable to read at a basic level on national reading tests. Our high school seniors trail students in most industrialized nations on international math tests. And nearly a third of our college freshmen find they must take a remedial course before they are able to even begin regular college level courses. The President is proposing a bold and ambitious approach to build a culture of achievement in elementary and secondary education. His blueprint for reauthorizing the Elementary and Secondary Education Act places accountability for improved achievement at the center of K-12 reforms. The budget provides funds to develop annual assessments of students, help States establish strong accountability systems, and expand State participation in the National Assessment of Education Progress—the Nation's Report Card—so that parents, teachers, and policymakers can ensure that students are improving.

In addition to focusing on accountability, the President's Budget will build a solid foundation for learning by supporting key elements of reform. It provides nearly $1 billion to ensure that children can read when they enter third grade. It includes $2.6 billion for States to improve teacher quality through high-quality professional development, aggressive recruitment, and innovative retention practices. The proposal will enhance school choice with $150 million to help charter schools acquire, construct, or renovate facilities and provides alternatives for children in chronically failing or dangerous schools. The budget also increases by $62 million Impact Aid construction assistance for schools serving large numbers of military dependents or Indian children, and provides $25 million for character education.

The President's Budget increases local flexibility by streamlining two complementary programs—Safe and Drug-Free Schools and Communities and 21st Century Community Learning Centers—so that school districts can support drug and violence prevention

Chart 19-1. Department of Education

10.6% Average Program Level Annual Growth, 1998-2002



Note: The line represents a gross program level, which adjusts for advance appropriations in 1999, 2000, and 2001.

activities as well as after-school programs in safe, enriched environments. It also reduces administrative burden by streamlining more than a half-dozen education technology programs into one flexible grant.

To provide additional funding to States to meet their most pressing needs in elementary and secondary education—including special education—States would be given the flexibility to redirect funds previously provided for the school renovation program, first funded at $1.2 billion in 2001.

Higher Education: The cornerstone of the Administration's higher education policy is an additional $1 billion for Pell Grants, increasing the maximum award for all students to provide more need-based grant aid to low-income college students. Department of Education funding for Historically Black Colleges and Universities, Historically Black Graduate Institutions, and Hispanic-Serving Institutions would increase 6.4 percent over 2001 as the first installment toward the President's goal of increasing these programs 30 percent by 2005. The budget also includes a mandatory-spending higher education initiative: expanding the existing teacher student loan forgiveness program to provide greater benefits for math and science teachers.

Disability Programs: The budget includes increased funds for special education to help States and school districts meet their obligations under the Individuals with Disabilities Education Act. As part of the President's New Freedom Initiative, the Education Department's budget also helps individuals with disabilities access the best assistive technologies of today, invests in research and development so even better technologies will be available in the future, and promotes telecommuting opportunities for individuals with disabilities.

Redirected Resources

The budget proposes to redirect resources previously provided for school renovation, first funded in 2001 at $1.2 billion. In view of the need to provide more resources for priority programs, the budget proposes to allow States increased flexibility to reallocate their 2001 funds among three authorized activities: special education, school renovation, and technology. For 2002, the budget proposes to redirect funds to help States meet their most pressing needs, including special education, help for low-performing schools, and accountability reforms.

The budget realizes $433 million in savings, to be redirected to higher priorities, by discontinuing all one-time projects from 2001 and eliminating funding for short-term activities whose purposes have been met.

Potential Reforms

The Department of Education's student financial assistance programs have been on the General Accounting Office's High Risk List since its inception in 1990. In the coming year, the Department will work to correct longstanding problems in its financial management and student aid operations, and will seek to minimize student loan defaults.

Financial Management: Since 1996, when independent audits were first required, the Department has received only one clean audit, and that was in 1997. Independent audits of the Department's records have repeatedly found major financial management deficiencies. These failed audits indicate a potential for improper use of government resources. Through investments in updated financial reporting systems, as well as better oversight and other management improvements, the Department expects to significantly increase the reliability and accuracy of its financial data. By 2002, the Department will have implemented and launched a new general ledger system and asset tracking software that will address many of the Inspector General's longstanding concerns about Education's financial management. These changes should enable the Department to earn clean audit opinions in the future.

Student Aid Management: To correct perennial deficiencies in the Department's student aid operations, the Higher Education Amendments of 1998 created the Federal Government's first performance-based organization, with the goal of modernizing student aid delivery and management. Student aid modernization is dependent on better use of efficient technologies, simplification of business processes, and seamless coordination with myriad partners in the higher education community. The Administration will ensure that the more than $50 billion in annual student aid assistance is provided in a timely and financially-prudent manner.

Default Prevention: Over the last eight years, outstanding student loan defaults have doubled from $12 billion to $25 billion, resulting in significant costs for taxpayers. During the next year, the Department will work to minimize loan defaults through continued counseling of students on their repayment responsibilities, improved early identification of problem loans, and implementation of loan management "best practices."

20. DEPARTMENT OF ENERGY

Highlights of 2002 Funding

- Provides $19.0 billion in 2002, $0.7 billion, or three percent, below the 2001 enacted level and $1.2 billion, seven percent, above 2000.
- Provides a $120 million increase for the low-income home Weatherization Assistance Plan, as part of a $1.4 billion increase over 10 years.
- Provides for new and extended tax credits for solar and renewable fuels.
- Increases funding for weapons stockpile stewardship by approximately $275 million over 2001, a five-percent increase.
- Restructures the coal research programs with industry to spend more than $2 billion over 10 years to reduce the environmental impact of using coal for electricity generation.
- Beginning in 2004, dedicates $1.2 billion in Arctic National Wildlife Refuge (ANWR) bid bonuses to fund increased research on solar and renewable energy technology research and development (R&D).
- Provides $8 million to maintain the two-million-barrel Northeast Heating Oil Reserve.
- Proposes increasing the level and consistency of R&D cost-sharing requirements to better leverage Federal R&D funds and to keep projects more focused on real market needs.

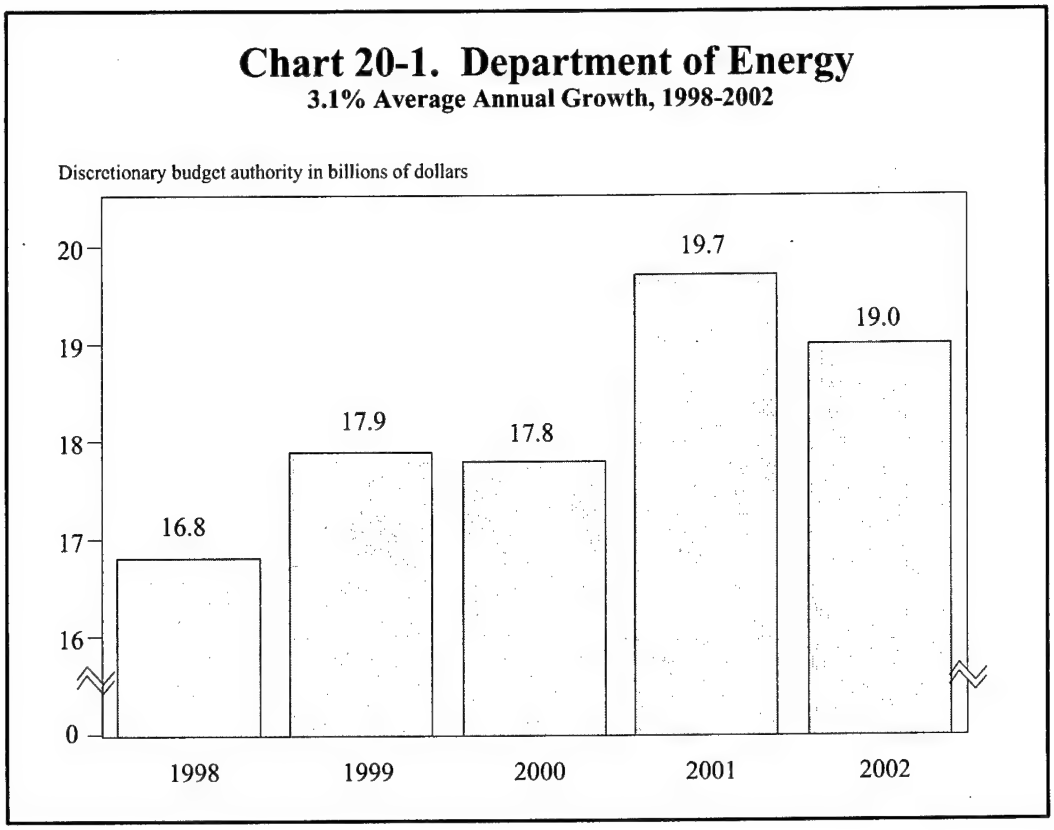
Initiatives

Increase Weatherization Assistance Funding: The President proposes to increase funding for the low-income home Weatherization Assistance Program (WAP) by $1.4 billion over 10 years, roughly doubling the spending during that period. Consistent with that commitment, the 2002 Budget will include a $120 million increase over 2001. The Department of Energy (DOE) will have the option of using a portion of those funds to test improved implementation approaches for the Weatherization program.

Restructure the Clean Coal Research Program: Using a consortium of companies to direct research funds to address broad industry issues, a restructured "clean coal" research program will spend more than $2 billion over 10 years for technology and efficiency improvements to reduce the environmental impact of the use of coal. All projects will require cost sharing by participants, with the industry share increasing as products approach commercialization.

Strengthen Stockpile Stewardship: The Stockpile Stewardship Program maintains our nuclear arsenal. The program is an essential safeguard to our national security and is in significant need of reform and repair. The budget increases funding for activities in this area by five percent to approximately $5.3 billion.

Strengthen Solar and Renewable Energy Technology Research and Development (R&D): As part of the Administration's plan to allow oil and gas drilling in a small part of the Arctic National Wildlife Refuge (ANWR) and other Federal lands, bonuses paid by win-



ning ANWR bidders, up to $1.2 billion, will be set aside to help fund enhanced research on alternative energy technologies. Bidding bonuses are estimated to be received in 2004.

Give Tax Credits for Renewable Energy and Nuclear Decommissioning: To further boost incentives for private sector development and use of renewable energy, the Administration will propose to extend and increase tax credits for fuel produced from renewable resources, as well as a tax credit for rooftop solar energy equipment. In addition, the Administration will propose to modify the tax treatment of nuclear decommissioning costs.

Maintain Northeast Heating Oil Reserve: The President's Budget provides $8 million to maintain the two-million-barrel Northeast Heating Oil Reserve. Operated by the private sector, the Reserve helps ensure adequate supplies of heating oil in the event that colder than normal winters occur in the Northeastern United States.

Redirected Resources

DOE's 2001 enacted funding level included significant earmarks or directed-spending initiatives that were not assessed as part of a merit-based or peer reviewed process. These projects and programs often address lower priority issues or are not of national interest. The budget does not fund these initiatives.

The Department faces major challenges in the management of its programs. According to historical data evaluated by the General Accounting Office, less than 10 percent of major programs initiated by DOE are completed on time and on budget. Almost 40 percent of such projects are never even completed. These projects extend from environmental remediation to research and development.

Management in general, and contract management in particular, have consistently been listed by the General Accounting Office as high risk activities. Project and contract man-

agement have also been listed by the Inspector General as top management challenges. DOE intends to achieve significant savings in 2002 from restructuring and reevaluating the performance of major projects across the Department including environmental management and science projects. In addition, research and development projects that subsidize large companies will be suspended or revisited to determine the appropriate role of the Department and private sector.

Potential Reforms

Reform Procurement and Contracting: Many of DOE's contract reform goals set out in 1994 have still not been achieved. DOE will continue efforts to improve its procurement systems, through which it allocates over 85 percent of its annual budget. DOE will adopt best commercial practices and increase performance-based competitive contracting.

Implement More Consistent and Aggressive Cost-Sharing Requirements for Applied R&D: DOE's applied R&D programs frequently require industry cost sharing, but the requirements vary widely from program to program. Subsidies to industry average 50 percent and exemptions are common. Federal R&D funds could be better leveraged and R&D projects would stay more focused on real market needs if the level and consistency of cost-sharing requirements were increased, based on an existing successful model developed for advanced automotive R&D.

21. DEPARTMENT OF HEALTH AND HUMAN SERVICES

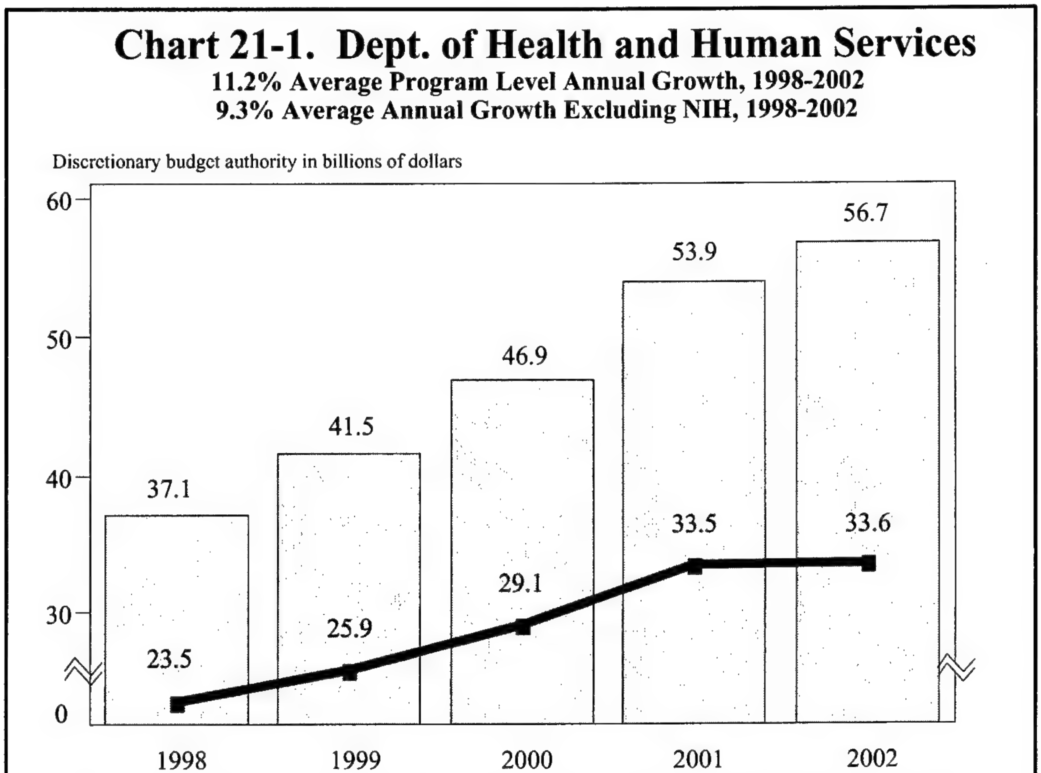
Highlights of 2002 Funding

- Provides $156 billion this year and over 10 years for Medicare reform, including an integrated prescription drug plan, and the Immediate Helping Hand program until reform is implemented.
- Continues the effort to double the National Institutes of Health (NIH's) 1998 funding level in five years by increasing NIH's funding by $2.8 billion over 2001, for a total of $23.1 billion in 2002.
- Expands the delivery of primary health care services to communities that lack health care access by providing $1,293 million, a $124 million increase, for the Community and Migrant Health Centers Initiative.
- Increases access to substance abuse treatment services and works to close the treatment gap by providing a $100 million increase for the Substance Abuse and Mental Health Services Administration as part of a broader $111 million initiative.
- Supports families by funding early interventions for at-risk families, assisting parents in obtaining after-school child care, promoting responsible fatherhood, supporting maternity group homes for teenage mothers, and creating incentives for stronger public private partnerships with charitable organizations.
- Addresses the neediest health professional services areas by highlighting a reform initiative for the National Health Service Corps grants through targeted legislative and management reforms.
- Targets areas of health risk by including approximately $400 million for existing activities for innovative health care improvement projects in State and local communities.

Initiatives

The Department of Health and Human Services (HHS) is charged with overseeing several Administration initiatives summarized below. More detailed information on these initiatives can be found in Chapter 12, "Strengthen Families" and Chapter 13, "Invest in Health Care."

Doubling Resources for the National Institutes of Health (NIH): The 2002 Budget includes a Presidential initiative to double NIH's 1998 funding level by 2003. NIH is working to meet the management challenges that can arise when an agency receives a substantial infusion of resources over a short period of time. NIH is in the process of identifying strategies and policies that could be implemented in 2002 and 2003 and beyond to maximize budgetary and management flexibility in the future. Such strategies could include funding the total costs of an increasing number of new grants in the grant's first year and supporting some one-time activities such as high-priority construction and renovation projects.



Note: 2000 includes an advance appropriation of $1.4 billion. The line represents the funding level for the Dept. of Health and Human Services excluding funding for the National Institutes of Health.

Strengthening the Health Care Safety Net: To strengthen the health care safety net for those most in need, the budget recommends a $124 million increase for Community Health Centers. This increase is the first installment for a multi-year initiative to increase the number of community health center sites by 1,200. Community Health Centers, which are a critical component of the American health care safety net, provide health care services to roughly 11 million patients, 4.4 million of whom are uninsured, through a network of over 3,000 community-based health care center sites.

Reforming the National Health Service Corps (NHSC): The NHSC management reform will examine the ratio of scholarships to loan repayments, as well as other set-asides, to provide maximum flexibility in placing NHSC providers. The Administration will also seek to amend the Health Professional Shortage Area definition to reflect other non-physician providers practicing in communities, which will enable the NHSC to more accurately define shortage areas and target placements better. To further avoid overlap in the provision of health care, HHS will enhance its coordination with immigration programs, including the J-1 and H-1C visa programs, which review applications for foreign health care providers practicing in underserved communities. The NHSC initiative will also encourage more health care professionals to participate in the NHSC by making scholarship funds tax free.

Increasing Access to Drug Treatment: The President recommends an additional $111 million to increase the availability of substance abuse treatment services. Included in this amount is $100 million for the Substance Abuse and Mental Health Services Administration to help close the treatment gap. The increase includes $60 million to help States finance treatment to those in need through the Substance Abuse Block Grant, and an additional $40 million will be made available through the Targeted Capacity Expansion

grants designed to support a rapid, strategic response to emerging trends in substance abuse.

Supporting the Healthy Communities Innovation Fund Initiative: HHS will allocate approximately $400 million in 2002 funding for existing grant activity for innovations at the local level, including programs to promote comprehensive care through integrated State health care delivery systems for women and children. HHS will increase coordination among these funds to ensure that the best and broadest range of innovative solutions are funded across the country.

Promoting Safe and Stable Families: The budget proposes funding the Promoting Safe and Stable Families program at $505 million in 2002, a $200 million increase over the 2001 level. These additional resources will help States keep children with their biological families, if safe and appropriate, or to place children with adoptive families. The budget also includes a $60 million increase for education and training vouchers to youth who age out of foster care. This initiative, which would be funded through the Independent Living Program, would provide vouchers worth up to $5,000 for education or training to help these young people develop skills to lead independent and productive lives.

Creating After School Certificates: The President's Budget creates a new $400 million after school certificate program within the Child Care and Development Block Grant, raising total funding to $2.2 billion. The new program would provide grants to States to assist parents in obtaining after-school childcare with a high-quality educational focus.

Promoting Responsible Fatherhood: The budget provides $64 million in 2002 ($315 million over five years) to strengthen the role of fathers in the lives of families. This initiative will provide competitive grants to faith-based and community organizations that help unemployed or low-income fathers and their families avoid or leave cash welfare, as well as to programs that promote successful parenting and strengthen marriage. The initiative also funds projects of national significance.

Supporting Maternity Group Homes: The budget recommends providing $33 million in 2002 for maternity group homes, which are community-based, adult-supervised group homes or apartment clusters for teenage mothers and their children. The homes provide safe, stable, nurturing environments for teenage mothers and their children who cannot live with their own families because of abuse, neglect, or other extenuating circumstances.

Encouraging Compassion and Charitable Giving: The President proposes three initiatives to ensure that the Federal Government plays a larger role in providing support to charitable organizations. A compassion capital fund will provide start-up capital and operating funds totaling $67 million in 2002 to qualified charitable organizations that wish to expand or emulate model programs. In addition, a $22 million national fund will support and promote research on "best practices" among charitable organizations in 2002. Also, to encourage States to create state tax credits for contributions to designated charities, the budget will propose legislation to allow States to use Federal Temporary Assistance for Needy Families funds to offset revenue losses.

Providing an Immediate Helping Hand (IHH): As prescription drugs have become an integral part of modern medicine, private health insurance in the United States has changed to incorporate adequate prescription drug insurance. Yet Medicare still does not provide coverage for most drugs as part of its benefit package. As a result, about three in 10 Medicare beneficiaries have no insurance coverage for prescription drugs.

To renew the promise made to our seniors 35 years ago, the President will propose to enact the IHH prescription drug proposal. The IHH proposal provides for immediate funding to States to allow for interim prescription drug coverage for those beneficiaries who need it most. This immediate assistance will give States the temporary financial support they need to protect beneficiaries with limited incomes or very high drug expenses and no other alternative for drug coverage until Medicare reform is achieved.

The IHH proposal will cover the full cost of drugs for individual Medicare beneficiaries with incomes up to $11,600 who are not eligible for Medicaid or a comprehensive private retiree benefit, and for married couples

with incomes up to $15,700 (135 percent of poverty) who do not have access to coverage. These beneficiaries would receive comprehensive drug insurance for no premium, and would pay a nominal charge for prescriptions. The proposal would also cover part of the drug costs for individual Medicare beneficiaries with incomes up to $15,000 and married couples with incomes up to $20,300 (175 percent of poverty). These beneficiaries would receive subsidies for at least 50 percent of the premium of high-quality drug coverage. The IHH proposal would also provide catastrophic drug coverage for all Medicare beneficiaries, giving them financial security against the risk of very high out-of-pocket prescription expenditures.

The IHH proposal would begin immediately. Unlike other plans, IHH builds on coverage that is available in over half the States, and under consideration in almost all States. No other proposal would provide interim access to drug coverage for up to 9.5 million of the most vulnerable Medicare beneficiaries until Medicare reform can be enacted. This would minimize the temporary burden on States. IHH is 100 percent federally funded, with flexibility in how States can choose to establish or enhance drug coverage.

Redirected Resources

To moderate the large discretionary funding increases that HHS has received in recent years and to build a budget that is sustainable over time, the budget would include targeted reductions in several programs.

Health Professions: The budget recommends a reduction to Health Professions' funding, which provides training grants to institutions. These training grants were created almost forty years ago when a physician shortage was looming. Today a physician shortage no longer exists. Moreover, the Federal role is questionable in this area given that these professions are well-paid and that market forces are much more influential in determining supply. To reflect changing priorities, the budget will recommend focusing resources on the Health Professions' grants that address current health workforce supply challenges, such as the impending nursing shortage and improving diversity in the health professions.

Community Access Program: The budget recommends eliminating the $125 million relatively new, categorical Community Access Program. The Administration supports policies for integrating health care services and giving States greater flexibility to merge and align health care delivery through existing channels, such as Medicaid waivers, the State Children's Health Insurance Program (S-CHIP), and the Community Health Centers Integrated Services Delivery Initiative. Further, Community Health Centers and Medicaid are effective and proven mechanisms for improving access to care and health insurance coverage for the uninsured.

Medicaid Integrity: The Administration is taking initial steps to further address the Medicaid "upper payment limit" loophole. The loophole has allowed States to draw down billions of dollars in Federal reimbursement for hospitals and nursing homes without any assurances that these payments were used for their intended purpose. Last year, the 106th Congress took initial steps to curb the financing abuses associated with the regulatory loophole by requiring the Health Care Financing Administration (HCFA) to publish a final rule on Medicaid upper payment limits. The final rule, however, only partially addressed the problem, allowing some States to continue the current practice for years and to expand some loophole arrangements through the creation of a higher upper payment limit for non-State government-operated hospitals. Building on recent congressional and regulatory actions, the Administration proposes to prohibit new hospital loophole plans approved after December 31, 2000 from receiving the higher upper payment limit proposed in the final rule.

Potential Reforms

Over the years, HHS has evolved into a sprawling, loosely organized bureaucracy as program after program has been added to the inventory of HHS activities. There have been more than 20 new programmatic activities added at HHS in the past two years alone. HHS spending now amounts to over 20 percent of the entire Federal budget, with over 300 discrete program activities and more than 750 annual performance goals. Needless to say, without strong centralized control and coordination, some HHS

activities overlap, duplicate each other, and even work at cross-purposes. Below are just a few specific areas that must be examined and addressed. In addition to these, HHS will undertake a thorough examination across the entire Department to ensure a streamlined, rationalized budget and program structure that will operate in the best interests of the nation's health and welfare.

Increasing State Flexibility in Public Health Grants: Excluding NIH, which awards more than 40,000 grants per year, HHS manages more than 70 discrete public health grant activities totaling almost $9 billion. States are eligible to receive directly at least 75 percent of these funds. Approximately $4 billion (44 percent) is awarded directly to States through formula grants, and almost $3 billion goes directly to States through four block grants. The Administration is considering increasing State flexibility to address its public health needs through expanded transfer authorities and other mechanisms to remove barriers to effective targeting of public health resources at the State and local level.

Rationalizing the HHS-Wide Research Agenda: Besides NIH, eight other HHS agencies supported over $1.2 billion of public health, health services and policy research in 2001. In light of the initiative to double funding for NIH, there is an opportunity now to examine the HHS health research portfolio to streamline management of the research agenda, identify any overlap in funding for similar research, and set priorities. Over the coming year, HHS will examine these issues closely and develop recommendations for reforming the Department's health research activities. In particular, HHS will prioritize its research agenda to focus on activities where the Federal mission and interests are clear, and focus less on research that is more traditionally and appropriately supported by universities and other research institutions. In addition, the Administration plans to assess other areas of Federally-supported research to determine if funding of this research may need greater emphasis in the future as the doubling of NIH initiative is achieved.

Reforming HFCA: Concerns about HCFA's management capabilities have been raised in several General Accounting Office reports, including the *High Risk Series: An Update* (January 2001) and *Financial Management: Billions in Improper Payments Continue to Require Attention* (October 2000). HCFA management reform is an Administration priority. HCFA will undertake a major effort to modernize and streamline its operations to more effectively manage current programs and implement new legislation. In particular, HCFA's role in a modernized Medicare program needs to be carefully considered. The Administration intends to consider fundamental changes in HCFA's mission and structure as part of this effort.

Reforming Medicaid and S-CHIP: The Administration will encourage the purchase of private health insurance through health care tax credits and other proposals. The Administration will also focus over the next few months on Medicaid and S-CHIP and recommend reforms that will improve the way these programs provide health care coverage to the poor and near-poor. After consulting with the States, the Administration will develop ideas to increase State flexibility and ensure that Medicaid and S-CHIP are being effectively used to promote health insurance coverage. The review of these programs will emphasize giving States the flexibility to use private insurance, when possible, and to coordinate with employment-based insurance for those who have access to it. Also, the Administration will work with the States to build a systematic approach to monitoring, stabilizing, and improving insurance coverage through reforms of these programs.

Strengthening Management to Improve Efficiency: The budget will propose steps to streamline HHS' decentralized approach to departmental management with the goal of enhancing coordination, eliminating costly duplication of efforts, and developing unified approaches to several of the key management challenges facing the agency. For example, the Department will move toward a unified financial management system to streamline accounting operations throughout the Department and consolidate Department level financial reporting. HHS will also promote a Department-wide information technology (IT) system design, to find efficiencies in the Department's current internal IT spending base of $1.5 billion. Additionally, the Department will

also review opportunities for managing and consolidating similar programs.

22. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Highlights of 2002 Funding

- Assists over 130,000 low-income families with the down payment on their first home.
- Increases the number of community technology centers in high poverty neighborhoods.
- Renews all expiring rental subsidy contracts, which protects current families.
- Provides 34,000 additional low-income families with housing vouchers.
- Expands the number of jurisdictions receiving assistance to house people with AIDS.
- Continues Community Block Grant formula funding at the 2001 level.
- Continues to reform the Section 8 program by implementing measures that improve the utilization of vouchers.
- Rehabilitates or constructs 100,000 homes through the Renewing the Dream tax credit.
- Provides tax credit to financial institutions that match private Individual Development Accounts to save for a first home, start a business, or pay for education.

Initiatives

The Down Payment Assistance Initiative will provide $200 million within the HOME Investment Partnerships Program to match down payment assistance provided by third parties, up to $1,500 per family. Funds will be administered by State housing finance agencies and each year help over 130,000 first-time low-income homebuyers.

The Community Technology Centers Initiative will enhance the Department of Housing and Urban Development's (HUD's) Neighborhood Networks program by providing $80 million in competitive grants to help communities create or expand technology centers in high poverty urban communities.

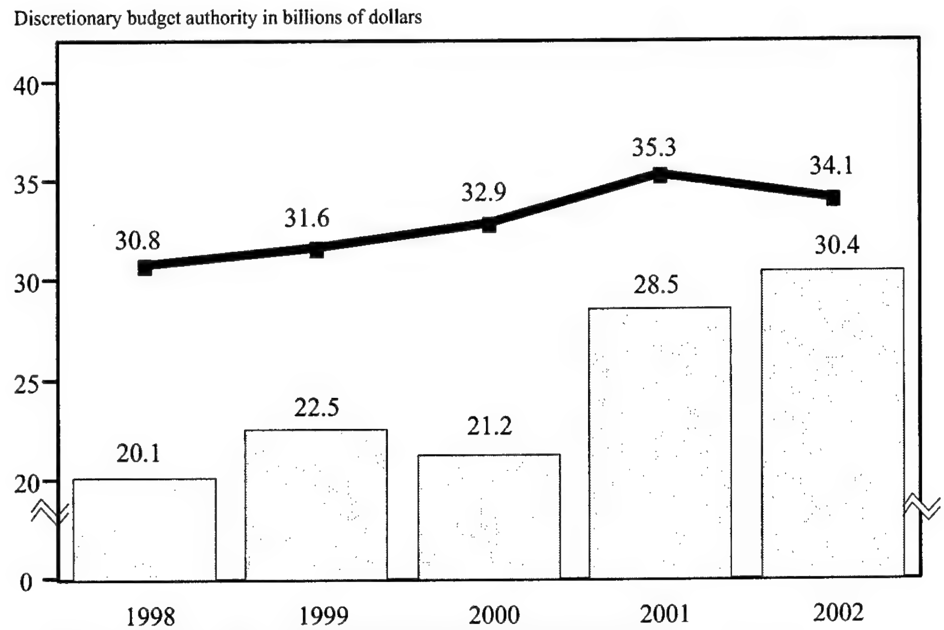
An Improving Access Initiative will provide $20 million in competitive grants within the Community Development Block Grant (CDBG) program for Americans with Disabilities Act exempt organizations that have limited resources, including civic organizations and religiously affiliated service providers, to make their facilities accessible to the disabled.

Redirected Resources

HUD will increase housing opportunities for low-income households by funding 34,000 incremental Section 8 housing vouchers and renewing all expiring rental subsidy contracts. HUD will also expand funding for the Housing Opportunities for People with AIDS program. This expansion will support an increase in the number of eligible jurisdictions based on projections of AIDS cases by the Centers for Disease Control without reducing funding for other jurisdictions. Additional funding will be provided within the Lead Hazard Reduction program, with increased private sector

Chart 22-1. Dept. of Housing and Urban Development

2.5% Average Program Level Annual Growth, 1998-2002



Note: The line represents program level, which adjusts for an advance appropriation of $4.2 billion in 2000, other technical changes, and offsetting receipts. 1998 and 1999 have been adjusted for reclassification of Federal Housing Administration receipts.

leveraging, to reduce exposure of low-income children to lead-based paint.

The Public Housing Capital program will decline by $700 million relative to 2001 funding. Full funding will be provided for the accrual of new capital needs and local Public Housing Authorities will be encouraged to use more than $6 billion in unspent funds to reduce the backlog of needs. In addition, regulatory tools will be used to address distressed public housing units that represent a disproportionate share of the backlog of capital needs. The Public Housing Operating program is increased by $150 million, in part to cover utility rate increases and other cost increases to operate public housing. The Public Housing Drug Elimination program is terminated because the program was found to have limited impact, the same activities are eligible under the Public Housing Operating and Capital programs, and regulatory tools such as eviction are more effective at reducing drug activity in public housing. Program funds will be redirected to other drug prevention efforts.

The Rural Housing and Economic Development program, which began in 1999, is terminated because it duplicates several programs, including CDBG and those of the Department of Agriculture.

A new Federal Housing Administration hybrid adjustable-rate mortgage will work with proposed tax incentives for savings and proposed tax credits for rehabilitation and construction of homes to expand homeownership, increase housing affordability, and strengthen established neighborhoods. The premiums for some specialized FHA programs (e.g., condominium, rehabilitation, and multifamily loans) are to be increased so that all single-family FHA borrowers pay the same premiums and so that these programs operate without the need for subsidy.

Potential Reforms

Oversight of Local Housing Providers: Housing assistance is delivered through thousands of local intermediaries—public housing agencies and private property owners. Weak oversight of these local agents has reduced the quality of housing services and increased costs, reducing the numbers of households that can be aided. HUD will improve its management rating instruments, making them more outcome-oriented rather than process-oriented and making other revisions as recommended by the National Academy of Public Administration and HUD's Inspector General. Using the improved instruments, HUD will act against intermediaries who violate the terms of their contract with HUD as demonstrated by failing scores on these instruments. Non-performing intermediaries will automatically be subject to appropriate remedial action, including termination and reassignment of contractual obligations.

Overpayments in HUD's Rental Assistance Programs: HUD overpays hundreds of millions of dollars in low-income rent subsidies because tenants' incomes are underreported and rents are improperly calculated or not fully collected. Latest estimates show substantial overpayment of subsidies in HUD's rental assistance programs, including public housing and Section 8 rental assistance programs. HUD will undertake reforms to correct these errors, including steps to ensure that local agencies and landlords can correctly calculate rent owed based on program rules, full implementation of HUD's existing authority to match tenant-reported incomes with IRS records, and steps to ensure that local housing agencies report tenant characteristics for all assisted households.

FHA Fraud Reduction and Improved Program Controls: Inadequate information systems have weakened FHA's ability to monitor lenders that use its guarantees and contributed to HUD's failure to obtain a clean opinion from its auditors in 1999. A fraudulent scheme known as "property-flipping" recently highlighted internal weaknesses in FHA's single-family systems and controls. To combat the scheme last year, FHA implemented emergency foreclosure moratoria to protect borrowers in areas where property flipping was prevalent. FHA will strengthen the integrity of internal systems and controls to eliminate the need for foreclosure moratoria or other emergency responses. Actions will include improving the loan origination process and providing better monitoring of lenders and appraisers.

23. DEPARTMENT OF THE INTERIOR

Highlights of 2002 Funding

- Fully funds the Land and Water Conservation Fund (LWCF) at $900 million in 2002, the highest LWCF budget request in history.
- Provides additional resources and management reform support to eliminate the deferred maintenance backlog in our national parks.
- Substantially reduces the Bureau of Indian Affairs' school repair and maintenance backlog, and funds replacement of six dilapidated schools on Indian reservations—with the goal of eliminating this backlog in five years.
- Continues a high level of funding for the wildland fire program to reduce fire risk and minimize the damage from wildfires. In addition, the budget proposes an unallocated National Emergency Reserve for unforseen disaster needs.
- Initiates planning and studies on potential oil and gas leasing in the Arctic National Wildlife Refuge in northern Alaska in 2004.
- Implements five recently authorized Indian land and water settlements in California, Colorado, Michigan, New Mexico, and Utah.

Initiatives

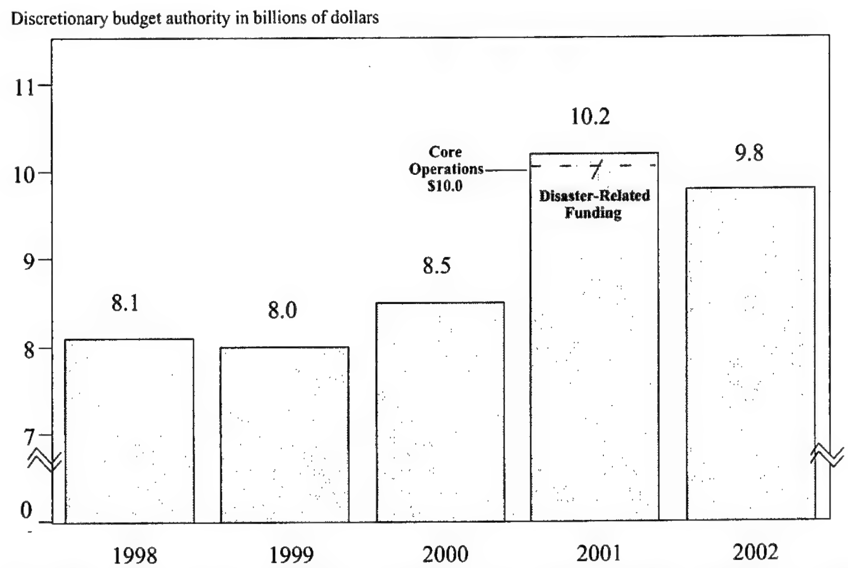
The 2002 Budget of $9.8 billion for the Department of the Interior (DOI) supports Administration initiatives to: fully fund the Land and Water Conservation Fund (LWCF) at $900 million starting in 2002; eliminate the National Park Service (NPS) deferred maintenance backlog within five years and implement vital management reforms, in part by directing a greater percentage of existing user fees to address the backlog; increase NPS science funding for the benefit of natural resource protection; and continue reducing the Bureau of Indian Affairs' school maintenance backlog in addition to replacing six schools.

Redirected Resources

The 2002 Budget provides DOI with $9.8 billion. This represents a four-percent reduction below 2001 but a 15-percent increase (almost $1.3 billion) over the 2000 level. This level also continues substantial funding for new conservation and Native American initiatives and is consistent with a reasonable rate of growth based on historical funding levels. The budget allows the Department to direct resources to its priorities, including new initiatives, while still meeting its core responsibilities. Funding for the wildland fire program will continue at a level 113 percent above comparable 2000 levels; additional funds will also be available for energy and land use planning and Indian Trust reform, and funds will be available for CALFED (a joint venture to improve water quality in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary), which was not funded in 2001.

The largest reductions are achieved by not repeating one-time emergency and other completed or non-recurring items in 2002. Among the decreases proposed for Interior are one-time costs, such as emergency fire costs (–$358 million), and programs that have been completed, such as the Millennium Initiative to Save America's Treasures in the NPS (–$35 million). Other reductions

Chart 23-1. Department of the Interior
5.0% Average Annual Growth, 1998-2002



Note: 1998 to 2002 include disaster-related funding. In 2001, $200 million was provided for emergency fire suppression. For 2002, such funding is provided through the National Emergency Reserve, an unallocated reserve for unforeseen emergency disaster needs.

will be achieved through streamlining of existing programs and management reforms. It is expected that additional savings achieved through management reform will allow the redirection of further funding to core DOI programs and new initiatives. Many unrequested earmarks are also proposed to be discontinued in 2002.

Potential Reforms

The 2002 Budget assumes several significant DOI management reforms to enhance efficiency and ensure that resources are spent effectively. The management of our national parks and other Federal lands has been identified as a high risk activity by the General Accounting Office and a top management challenge by the Inspector General. For instance, in the past, more than 20 percent of the NPS construction budget has been used to construct new facilities rather than repair existing problems. Today, the NPS has accumulated a large backlog of maintenance work. To address the deferred maintenance backlog on facilities in the National Park System, the NPS will improve its maintenance management system; develop and implement a better process to prioritize maintenance projects for funding from appropriated or non-appropriated funds; focus on managing the land under its jurisdiction; and enhance its partnerships and concessions programs. These reforms, in conjunction with substantial Federal funding in the 2002 Budget, will ensure that the maintenance backlog for National Park facilities will be eliminated over five years in a cost-effective manner.

The budget also proposes to better target many U. S. Geological Survey (USGS) activities. The self-stated performance goal of USGS is "to provide science for a changing world." DOI is examining ways to focus USGS on providing sound science to support the Department's land management agencies in their decision-making processes. In addition, the budget supports ongoing reforms relating to the management of Indian trust funds and assets that were initiated pursuant to the enactment of the 1994 Indian Trust Fund

Management Reform Act. DOI is implementing new land records, real estate appraisal, leasing, and probate management systems, as well as consolidating small ownership interests in Indian trust lands.

24. INTERNATIONAL AFFAIRS PROGRAMS

Highlights of 2002 Funding

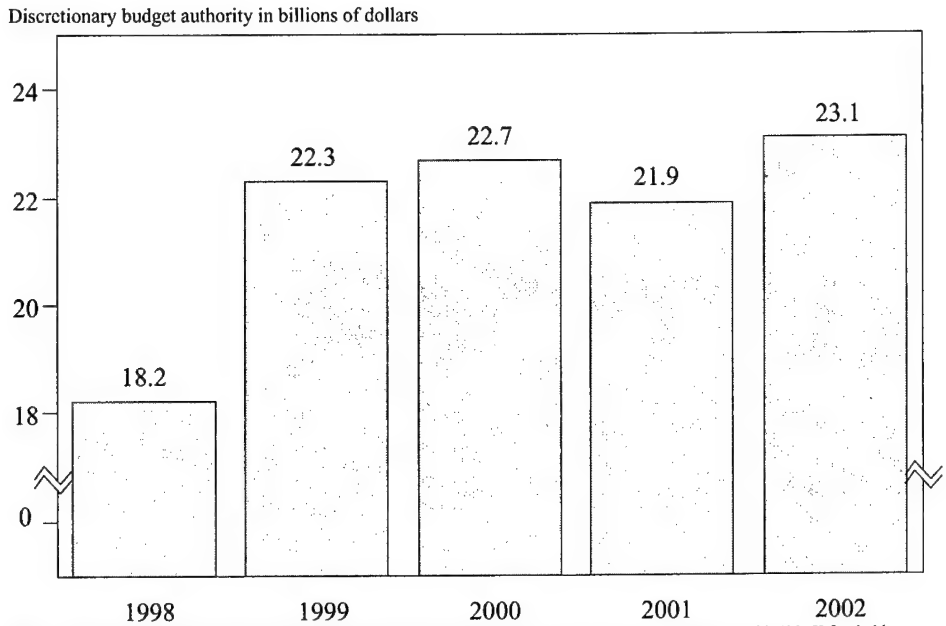
- Supports the worldwide operations of the Department of State and provides new resources for information technology and human resources designed to improve overseas diplomatic and consular activities.
- Extends support for U.S. efforts to stem the flow of cocaine and heroin from Colombia and its neighbors and to increase stability in the Andean region.
- Provides increases to the U.S. Agency for International Development (USAID) for activities that combat global HIV/AIDS and improve primary education in Africa and other parts of the developing world.
- Increases military assistance to Israel to help meet increases in defense resource requirements and demonstrate our commitment to Israel's security.
- Fully funds all 2002 scheduled payments to the Multilateral Development Banks (MDBs).
- Provides funds that, along with carryover funds from 2001, fully fund the U.S. commitment to help finance Heavily Indebted Poor Country (HIPC) debt reduction by the MDBs.
- Supports multilateral peacekeeping initiatives that help restore and maintain peace around the world.
- Supports continued U.S. efforts to remove landmines in former war-torn countries that ruin lives and harm or destabilize economies.
- Continues efforts to halt the spread of weapons of mass destruction by supporting stronger international safeguards on civilian nuclear activity and by helping other countries to improve their controls on exports of potentially dangerous technology.
- Increases funding for international broadcasting that contributes to the global free flow of information by providing accurate information on world and local events to foreign audiences.
- Extends existing trade preference legislation (Generalized System of Preferences and the Andean Trade Preference Act) for one year and three years, respectively.

Initiatives

Embassy Security: The President's 2002 Budget reaffirms the steadfast commitment to the safety and security of the men and women serving our Nation overseas. The budget includes $1.3 billion to address infrastructure needs including the construction of new, secure facilities and to improve security operations including additional security officers essential to the prevention and deterrence of terrorist attacks. The continued engagement and leadership of the United States in international affairs will not be diminished by the actions of terrorists as we have demonstrated in the wake of the embassy bombings in Nairobi and

Chart 24-1. International Affairs Programs

6.2% Average Annual Growth, 1998-2002



Note: 1999 excludes one-time funding for the International Monetary Fund. Totals do not include P.L. 480 Title II food aid, which is included in the totals for the Department of Agriculture.

Dar es Salaam. On the contrary, it only strengthens our resolve to advance our values and U.S. interests throughout the world.

Information Technology (IT): The 2002 Budget presents an opportunity to reinvigorate efforts to expand the use of IT in foreign affairs. The budget includes a substantial increase for investments in a modernized secure communications capability incorporating new tools and applications, opening access channels to the Internet to take full advantage of its information and communication capabilities, and sharing information among agencies in the foreign affairs community.

Assistance for Counternarcotics Activities: The 2002 Budget requests funding to maintain and expand programs begun with $1.3 billion in the 2000 Emergency Supplemental to support Plan Colombia. Colombia is the source or transit point of 90 percent of the cocaine and over half of the heroin in the United States, and those percentages are increasing. Neighboring countries, such as Bolivia and Peru, have conducted effective coca eradication programs, but maintaining their success will require vigilance and U.S. support. Any successful counterdrug strategy in the region must include funding to bring greater economic and political stability to the region and a peaceful resolution to Colombia's internal conflict. The United States must capitalize on the groundwork of programs funded thus far including the expansion of Andean eradication and interdiction, sustained alternative development programs, and continued attention to justice and government reform initiatives. The budget also requests funding for Ecuador, Brazil, Venezuela, and Panama, under this initiative to strengthen their efforts to control drug production and the drug trade.

Tropical Forest Initiative: The President is committed to increase resources for the protection of tropical forests. In 1998, Congress passed the Tropical Forest Conservation Act (TFCA). The President supports, and the 2002

Budget will make more funds available for "debt-for-nature" swaps and other market-oriented methods authorized under the TFCA to protect tropical forests.

Redirected Resources

Consistent with the overall effort to reduce subsidies that primarily benefit corporations rather than individuals, the international affairs budget includes savings in credit subsidy funding for the Export-Import Bank and the Overseas Private Investment Corporation (OPIC). The Export-Import Bank provides export credits, in the form of direct loans or loan guarantees, to U.S. exporters who meet basic eligibility criteria and who request the Bank's assistance. The budget proposes savings of approximately 25 percent in Export-Import Bank's credit subsidy requirements through policy changes that focus the Bank on U.S. exporters who truly cannot access private financing, as well as through lower estimates of international risk for 2002. These changes could include a combination of increased risk sharing with the private sector, higher user fees and more stringent value-added tests. The budget also eliminates OPIC credit subsidy for 2002. OPIC has been unable to spend all of its existing subsidy budget authority in any of the past two fiscal years, and will carry enough subsidy into 2002 to fully fund its current level of credit programs. This redirection effort anticipates that the role of the Export-Import Bank and OPIC will become more focused on correcting market imperfections as the private sector's ability to bear emerging market risks becomes larger, more sophisticated, and more efficient.

Potential Reforms

De-layering the Bureaucracy to Promote Effective Foreign Policy: American foreign policy can be made more effective by empowering highly talented and motivated foreign policy professionals. The Department of State will empower line officers at the center of foreign policy by using their expertise and reducing the number of middle management positions that complicate lines of authority within the Department and hinder the development and presentation of a coherent foreign policy.

Using IT More Effectively: The Department of State intends to make full use of all the tools of the ongoing technology and information revolution. A long-term investment strategy for new technology is necessary to address the many needs of foreign policy professionals. The Secretary of State has personally committed to transform the way IT is used to communicate, gather, and share information within the Department and the 2002 Budget is the initial step toward that goal.

Reforming Management of Human Resources: Current personnel policies and work force planning threaten the Department's ability to recruit and retain the highest possible caliber work force to meet the challenges and opportunities of American foreign policy. The Department will complete a comprehensive examination of current and future workforce needs to ensure that it is prepared for the challenges of 21st Century diplomacy. The Department of State will create and implement policies to ensure that it recruits, hires, and retains Foreign and Civil service officers with the right skills needed to fulfill the Department's strategic and performance goals.

Using Best Practices in Facilities Management: A safe and secure work environment that supports the work of all agencies overseas is essential for the effective promotion of U.S. national interests. The organization that builds and manages American overseas facilities must be committed to the most effective and efficient means of providing top-flight service. The 2002 Budget provides the necessary funding to make this happen. The Department of State will identify, review and change as necessary business processes that are not consistent with the best practices of private industry and the U.S. Government. It will meet the secure facility needs of the foreign affairs community.

25. DEPARTMENT OF JUSTICE

Highlights of 2002 Funding

- Provides the first installment of $100 million in a five-year, $500 million effort, to provide quality service to all legal immigrants, citizens, businesses, and other Immigration and Naturalization Service customers. The number of Border Patrol agents will increase by 1,140 over two service years, achieving the authorized level of 5,000 new agents.
- Includes $3.5 billion for the Federal Bureau of Investigation (FBI), an increase of eight percent over 2001, primarily to combat terrorism and cybercrime through a combination of additional personnel and the development and deployment of new technical capabilities. The budget also includes resources for the FBI to provide security support for the 2002 Winter Olympics in Salt Lake City.
- Proposes $1.5 billion for the Drug Enforcement Administration (DEA), an increase of nine percent over 2001, to enhance operational support programs including laboratory services and DEA's office automation infrastructure, which provides agents access to investigative databases and other automated support systems.
- Provides $4.7 billion for prisons, an eight percent increase over 2001, for new prison construction and activations, as well as additional contract bed space, all of which is necessary to prevent further prison system-wide overcrowding—currently at 34 percent, up from 25 percent just two years ago.
- Includes $1.3 billion for the U.S. Attorneys, an increase of seven percent over 2001, primarily to combat cybercrime based on the dramatic growth and reliance businesses have placed on the Internet. The budget also includes resources for the U.S. Attorneys to handle an overload of *habeas corpus* cases.

Initiatives

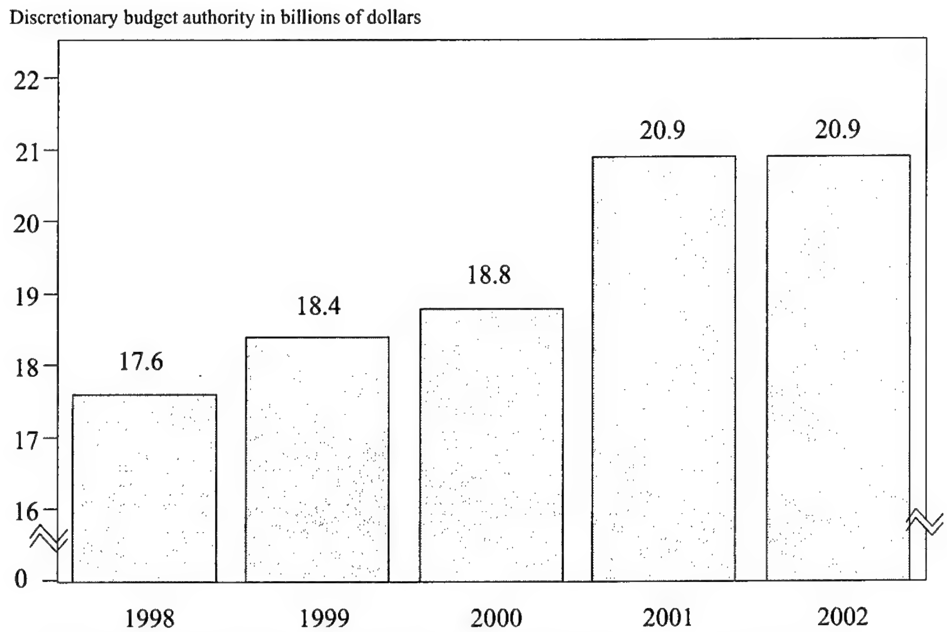
The budget funds nine Presidential initiatives ($395 million) and related enhancements for immigration, prisons, and drug enforcement.

Immigration: The Administration proposes a five-year, $500 million initiative to obtain a universal six-month processing standard for all immigration applications and petitions. This funding will provide additional personnel, employee performance incentives, and resources to make customer satisfaction a priority. In addition, the Administration proposes $75 million to fund 570 new Border Patrol agents in both 2002 and 2003. With the hiring of these new agents, it is estimated that about 11,000 agents will be deployed along the Nation's Northern and Southern borders. The budget also requests $20 million to fund intrusion detection technology including high-resolution color and infrared cameras and state-of-the-art command centers. An additional $7 million would also be provided to establish intelligence units along the Northern and Southwest borders to protect against terrorist threats.

Prisons: The budget includes $821 million for prison construction, modernization, and bringing newly built prisons into operating

Chart 25-1. Department of Justice

4.4% Average Program Level Annual Growth, 1998-2002



Note: Program levels for 2000 through 2002 do not reflect delays in spending from the Crime Victims Fund. Adjusted program levels would be $18.3 billion, $20.4 billion, and $19.9 billion, respectively.

service, and for contract bed space to prevent dangerous levels of overcrowding in Federal prisons. In addition, the budget includes $5 million to establish a faith-based, prison pre-release pilot program. The pilot will be hosted at four Federal prisons that are geographically diverse, encompass varying levels of security, and include both male and female inmate populations. The goal of the initiative is to reduce the rate that ex-offenders are returned to prison. The budget also includes $140 million to support additional detention beds to keep pace with the growth in criminal and alien detainee population.

Drug Enforcement: The budget includes funding for reimbursing localities for costs associated with drug prosecutions along the Southwest Border; assistance to State and local law enforcement agencies for the clean up of methamphetamine labs; and would maintain funding for drug courts at historically high 2001 enacted levels.

Redirected Resources

Justice's State and local grant assistance programs have grown over five-fold since 1992, reaching $4.6 billion in 2001, spread across over 60 programs of varying size. The 2002 Budget proposes redirecting $1.5 billion from programs that have accomplished their initial objective, have been awarded on a non-competitive basis through legislative action, or are otherwise of questionable merit. The reallocation will permit increases for Federal law enforcement agency priorities, as well as for selected State and local grants, including Violence Against Women Act programs, Weed and Seed crime prevention, projects Child Safe and Sentry, drug treatment at State prisons, and targeted local prosecutor initiatives.

Potential Reforms

The Department of Justice faces financial, performance, and accountability challenges in a number of areas.

The Administration is committed to building and maintaining an immigration services system that ensures integrity, provides services accurately and in a timely manner, and emphasizes a culture of respect. It often takes INS three years or more to process some immigration applications and petitions. As mentioned above, to improve the focus of the INS on service and to reduce the processing delays, the Administration proposes a universal six-month standard for processing all immigration applications and petitions.

The Administration is also committed to addressing systemic problems in INS, particularly those related to INS' dual missions of service and enforcement. To avoid internal conflict of mission, the Administration proposes restructuring and splitting the INS into two agencies with separate chains of command and accountability, reporting to a single policy leader in the Department of Justice.

26. DEPARTMENT OF LABOR

Highlights of 2002 Funding

- Maintains labor law enforcement agencies at their 2001 levels, with a renewed emphasis on compliance assistance.
- Provides over $5 billion to support the Department of Labor's (DOL's) youth and adult training activities, offering services to over two million participants.
- Nearly doubles funding for the Office of Disability Employment Policy.
- Allows targeted investments in DOL's information technology infrastructure to enhance customer service and outreach.

Initiatives

Nearly Doubles Funding for the Newly Created Office of Disability Employment Policy: A $20 million increase would complement the Administration's New Freedom Initiative, allowing the Office of Disability Employment Policy to undertake new activities to integrate individuals with disabilities into the work force. The Office will facilitate change in policies and practices that will result in higher numbers of individuals with disabilities employed in the competitive labor market.

Redirected Resources

The 2002 Budget reallocates resources from lower-priority and duplicative activities to areas where there are demonstrated needs. Specifically, the budget would:

Boost DOL's Central Information Technology (IT) Fund: The budget maintains compliance with the Clinger-Cohen Act, meets IT architecture requirements, ensures IT security, and addresses related capital investment needs. Continued investments in this area will expand communication capabilities, improve service delivery, and increase access to information for people with disabilities.

Establish Federal Employees' Compensation Act Administrative Surcharge: Establish an administrative surcharge on the amount billed to Federal agencies for workers' compensation benefits, financing DOL's program administration expenses and boosting agencies' incentives to improve the safety of their workplaces.

Redirect Certain Targeted Job Training Programs: The budget supports a sustained effort in core job training programs. Individuals served through these targeted job training programs could be served through the youth and adult programs. In the case of Incumbent Workers, for example, States can currently use Federal training funds for incumbent worker projects.

Concentrate Funding on Problems Here at Home: DOL's priority must be workers here at home. The budget maintains international labor activities at 2000 levels.

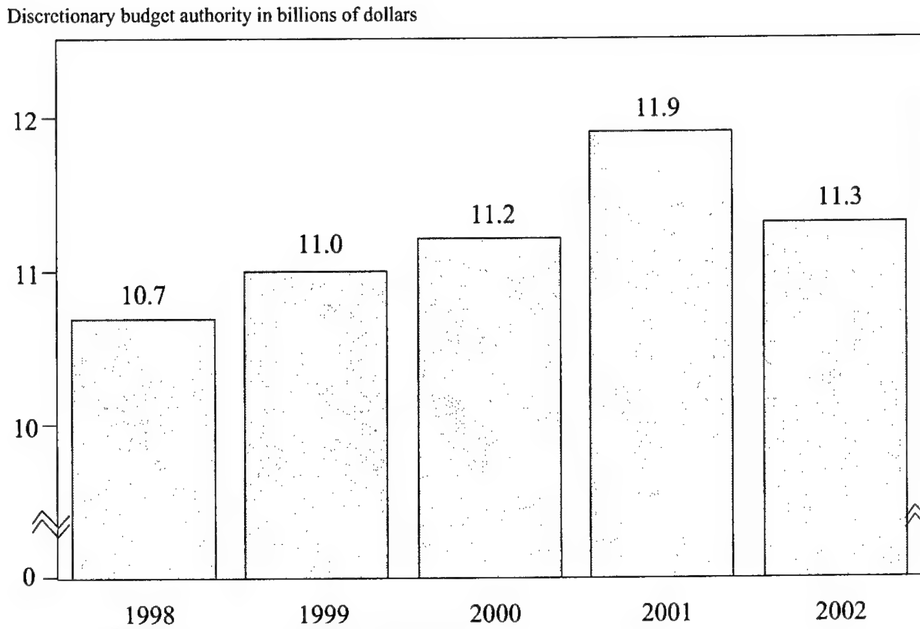
Potential Reforms

The Department's Inspector General (IG) has identified a number of areas where progress is needed and the Department will continue to address other management needs.

Protection of Worker Benefit Funds: The Department oversees several programs that provide benefits to workers, such as the Unemployment Insurance, Black Lung Benefits, and Federal Employees' Compensation Act programs. The IG continues to be concerned about the ease with which these programs can be defrauded by claimants and medical providers,

Chart 26-1. Department of Labor

1.3% Average Annual Growth, 1998-2002



Note: 2000 includes an advance appropriation of $2.5 billion.

as well as other weaknesses that can lead to waste of program funds.

Foreign Labor Certification: The IG continues to identify fraud in the labor certification programs such as the filing of fraudulent petitions on behalf of fictitious companies and petitions filed for legitimate companies without their knowledge or permission. Based on its investigative and audit work, the IG remains concerned about the potential for increased fraud in this area.

Performance Accountability of Grants: DOL's administration of roughly $9 billion in grant funds continues to be an area of concern. DOL needs to ensure that all grantee cost reports are entered in a timely manner into the Department's financial system to ensure accountability over the billions of dollars involved, and more attention to grant management is needed in such program areas a Youth Opportunity, Welfare-to-Work, and Child Labor programs.

Alien Labor Certification (ALC) Program Reform: DOL will complete the development of a streamlined adjudication process for permanent ALC applications. Changes to the program include moving to an employer attestation process, eliminating State processing, centralizing Federal processing, and implementing an audit function. DOL plans to move expeditiously on implementing the reformed adjudication system.

Compliance Assistance Efforts: In recent years, DOL has expanded its efforts to develop and use non-enforcement tools (e.g., consultation, electronic advisors) to help achieve compliance with workplace laws and regulations. DOL will continue to explore the use of technology (such as the Internet, interactive electronic advisors, and distance learning) and related interventions to improve and expand the reach of its compliance assistance.

Energy Employees' Occupational Illness Compensation Program: DOL faces a significant challenge in the implementation of the Energy Employees' Occupational Illness Compensation Program, which is set to begin on July 31, 2001. DOL will continue to work with the Departments of Health and Human Services, Energy, and Justice to ensure the program's efficient operation.

27. DEPARTMENT OF TRANSPORTATION

Highlights of 2002 Funding

- Provides full funding of the Highway "guarantee" level of $32.3 billion, $2.1 billion above the 2001 enacted level, to support state and local highway and bridge improvements. This funding level includes $145 million for the President's New Freedom Initiative to ensure transportation alternatives are available for the disabled and increases research and development funding to support congestion reduction technology initiatives.
- Includes full funding of the Mass Transit "guarantee" level of $6.7 billion, $486 million above the 2001 enacted level, to expand mass transit programs.
- Provides full funding for the Aviation "firewall" level of $13.3 billion, $725 million above the 2001 enacted level, to meet the Federal Aviation Administration's operating, safety and security responsibilities and to minimize air traffic delays and modernize the air traffic system.
- Proposes $5.1 billion for the Coast Guard, $545 million above 2001 enacted, to support operational requirements and begin rebuilding the Coast Guard's aging fleet of ships and aircraft.
- Provides $521 million for Amtrak capital programs—a funding level that supports the railroad's glidepath to achieve operational self-sufficiency.

Initiatives

Highway, Transit, and Aviation Funding: The President's Budget seeks to fully fund the guarantee levels provided for highway and mass transportation under the Transportation Equity Act for the 21st Century and for the Federal Aviation Administration's operating and capital programs under the Aviation Investment and Reform Act for the 21st Century. Both acts provide substantial additional assistance to ensure an appropriate level of continued investment in the Nation's roads, bridges, transit systems, airports and air traffic control systems.

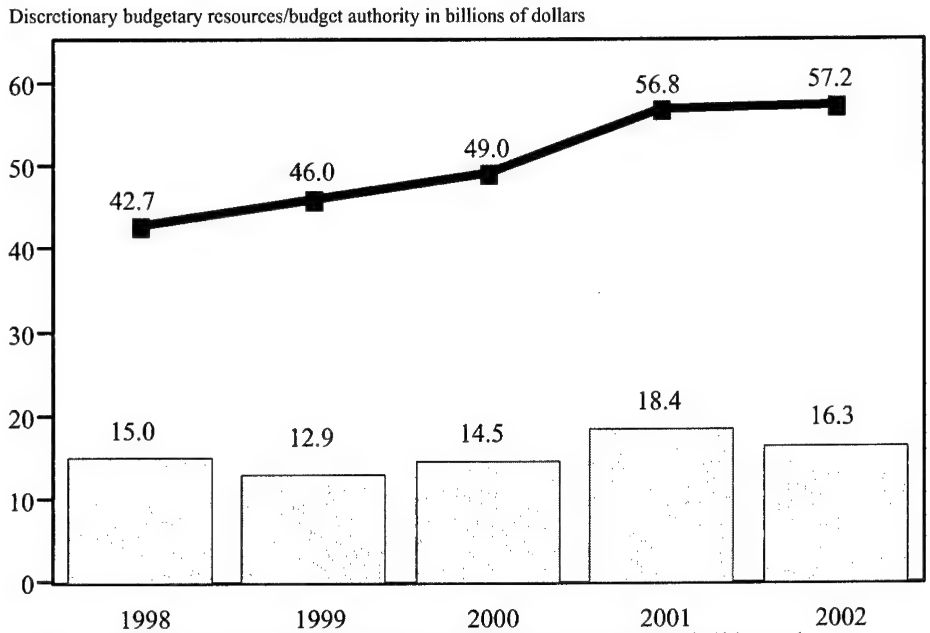
Drug Interdiction: The President's Budget seeks to fully fund the authorizations of the Western Hemisphere Drug Elimination Act. Enacted in 1999, this Act targeted resources to enhance source and transit country coverage and authorized funding for Coast Guard cutters, patrol vessels and air support for counter-narcotics efforts. The budget provides $243 million in additional funding under this initiative for the acquisition, construction, and improvement of ships, planes, and equipment to enhance interdiction efforts and to replace Coast Guard's aging fleet of ships and aircraft.

New Freedom Initiative: The budget funds two new programs totaling $145 million as part of the President's New Freedom Initiative:

- *Pilot Programs for Innovative Transportation* provides $45 million to promote innovative transportation solutions for people with disabilities. The selected pilots, run by State or local governments in regional, urban, and rural areas, will be evaluated after three years with the successful initiatives expanded to other areas.
- *Matching Grants for Alternative Transportation* provides $100 million in competitive matching grants to promote access to alternative methods of transportation. The

Chart 27-1. Department of Transportation

7.6% Average Program Level Annual Growth, 1998-2002



Note: The line represents program level and includes new obligational authority for FAA, and for highway and mass transit spending. The bars represent budget authority, and do not include resources derived from obligation limitations.

funds will aid community-based organizations that seek to integrate Americans with disabilities into the workforce. The funds will go toward the purchase and operation of specialty vans, assisting people with down payment or costs associated with accessible vehicles, and extending the use of existing transportation resources.

Redirected Resources

Unrequested Projects and One-time Reductions: The 2001 appropriations acts included over 90 unrequested projects and earmarked funding totaling over $1 billion outside of the funding guarantee levels. The President's Budget does not propose to repeat one-time special projects.

Ship Construction and Shipyard Modernization: In an effort to trim corporate subsidies, the President's Budget seeks no new funding for the Maritime Guarantee Loan Subsidy Program (Title XI). This program provides loan guarantees at low-rates and for extended-terms for the ship building industry and for shipyard modernization.

Transportation User Fees: To ensure that users pay for specialized services or Government support, the budget assumes that $75 million will be raised from new user fees to offset the costs associated with the regulation of the transportation of hazardous materials, expanded Federal inspection of the Nation's over two million miles of pipeline, and support the railroad safety inspection program.

Potential Reforms

Aviation: The Administration is extremely concerned about delays in the National Airspace system and management problems within the Federal Aviation Administration (FAA). The time has come to implement urgently needed management reforms. The Administration supports efforts to institute improved business practices, organizational changes, and market-oriented techniques to strengthen FAA's operations and reduce system delays,

recognizing the role of airlines and airports. As part of this effort, the Administration will work with the aviation community and Congress over the next year to develop a plan of action for improving the Nation's aviation record, and in particular to examine the success that various nations, such as Canada, have experienced with individual air traffic control systems owned and operated by private companies.

Highway Oversight: Given the Federal Highway Administration's role in distributing billions of dollars in Federal funding each year to States for grants and infrastructure projects, it is important to ensure that Federal funding for these projects is being used responsibly. In an effort to address concerns about highway project oversight, the Administration plans to continue to strengthen its ability to provide timely review and evaluations of major highway projects and funding initiatives.

Maritime Security: To consolidate the management of like-programs and achieve greater efficiencies, the budget proposes to transfer the Maritime Security Program and its funding from the Department of Transportation to the Department of Defense. This transfer will ensure a centralized national security focus in the management of this program.

28. DEPARTMENT OF THE TREASURY

Highlights of 2002 Funding

- Provides $400 million in investments to modernize IRS's outdated computer systems.
- Completes IRS staffing initiative to improve customer service and tax system fairness.
- Increases spending for the Customs Service interdiction efforts against illegal drugs.

Initiatives

IRS Information Technology: The budget includes close to $400 million in investments to modernize the IRS's outdated computer systems. This multi-year project will provide IRS with the modern tools needed both to deliver first class customer service to America's taxpayers and to ensure that compliance programs are administered efficiently.

IRS Customer Service and Audit enhancements: The 2002 Budget also includes follow-on funding for the IRS's Staffing Tax Administration for Balance and Equity (STABLE) initiative, begun in 2001. These funds will complete the hiring of almost 4,000 staff and will enable the IRS to address the decline in audits and the drop in customer service that have occurred over the past several years.

Western Hemisphere Drug Elimination Act: Consistent with the President's promise to increase spending to implement the Western Hemisphere Drug Elimination Act, the United States Customs Service will direct an additional $35 million to work, in coordination with the United States Coast Guard, to improve interdiction efforts against illegally imported drugs.

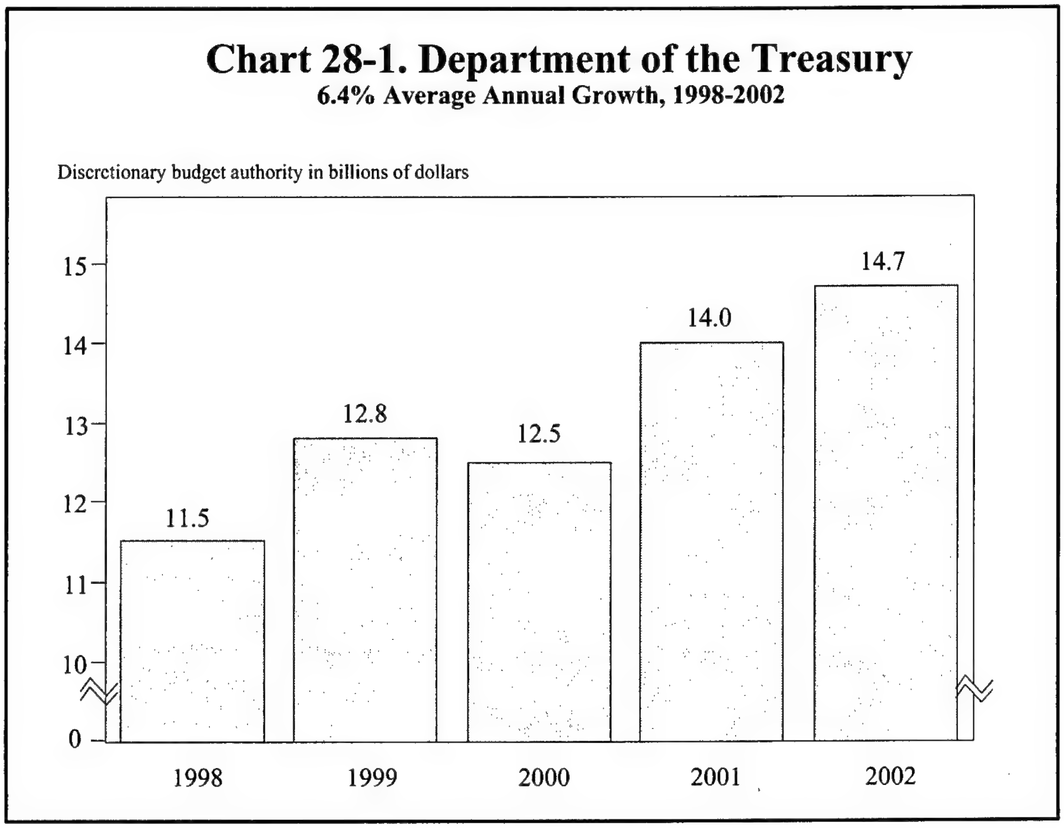
Redirected Resources

Treasury will continue its efforts to promote financial services in low-income communities through the Community Development Financial Institutions Fund (CDFI) program, which will be in charge of administering the tax credit authorized in the Community Renewal Act of 2000, and the Electronic Transfer Accounts initiative. However, support for CDFI will be reduced below the 2001 appropriated level and the Expanded Access to Financial Services (First Accounts) initiative will receive no further funding.

Potential Reforms

For many years, Treasury has searched for ways to ensure that the large investments required in information technology modernization are invested wisely and to ensure that the Federal Government's particular expertise in law enforcement is shared across the nation with States and localities.

Investments in Technology: The Treasury Department must ensure that its major technology modernization efforts are managed effectively. The IRS must ensure that there is no repeat of the management problems that forced the Department to abandon its effort in 1995 to modernize its tax systems. The Department should ensure that similarly robust management processes are in place for its other technology projects, including the efforts to replace the automated import processing system used by the United States Customs Service.



Law Enforcement Best Practices: Treasury's law enforcement bureaus should implement a series of "best practices" initiatives to enhance the effectiveness of Federal efforts to aid States and localities in the fight against violent crime. Specifically, the 2002 Budget includes an effort by the Federal Law Enforcement Training Center to provide guidelines for law enforcement training standards and certification of law enforcement training. Also, the Bureau of Alcohol, Tobacco, and Firearms should work with the expanded Youth Crime Gun Interdiction Initiative and develop a model for best practices.

29. DEPARTMENT OF VETERANS AFFAIRS

Highlights of 2002 Funding

- Provides more than $51 billion for veterans' benefits and services: $28.1 billion for mandatory entitlements and $23.4 billion in net discretionary budget authority to administer veterans' benefits and provide medical care and burial services.
- Increases net discretionary budget authority by $1 billion, or 4.5 percent, over the 2001 level.
- Ensures that the Nation's veterans receive high-quality health care, accurate and timely entitlement benefits, and a continued commitment to make veterans' cemeteries national shrines.
- Implements a Presidential initiative to ensure the timely and accurate processing of veterans' disability claims, while strengthening the Department of Veterans Affairs' (VA's) "duty to assist" role.
- Focuses VA's health care system on its core mission of providing high-quality health care to veterans with disabilities or low incomes; and supports the President's new task force to study ways of improving health care access and quality.
- Assumes that $235 million of VA's current health care liability will shift to the Department of Defense due to generous new benefits available to military retirees over age 64.

Initiatives

The President's Budget will rejuvenate the Department of Veterans Affairs' (VAs') efforts to ensure the timely and accurate processing of veterans' disability compensation claims. It will fully implement new legislation that strengthens VA's "duty to assist" veterans in preparing their claims and a regulation that adds diabetes to the list of presumptive conditions that are associated with exposure to herbicides. The budget will fully fund the Veterans Benefits Administration's (VBA) additional workload for this initiative and assumes that VBA will develop a vision for future benefit delivery that incorporates and harnesses paperless technology. Part of this effort to modernize will be for VBA to complete the consolidation of aging data centers into its state-of-the-art facility in Austin, Texas.

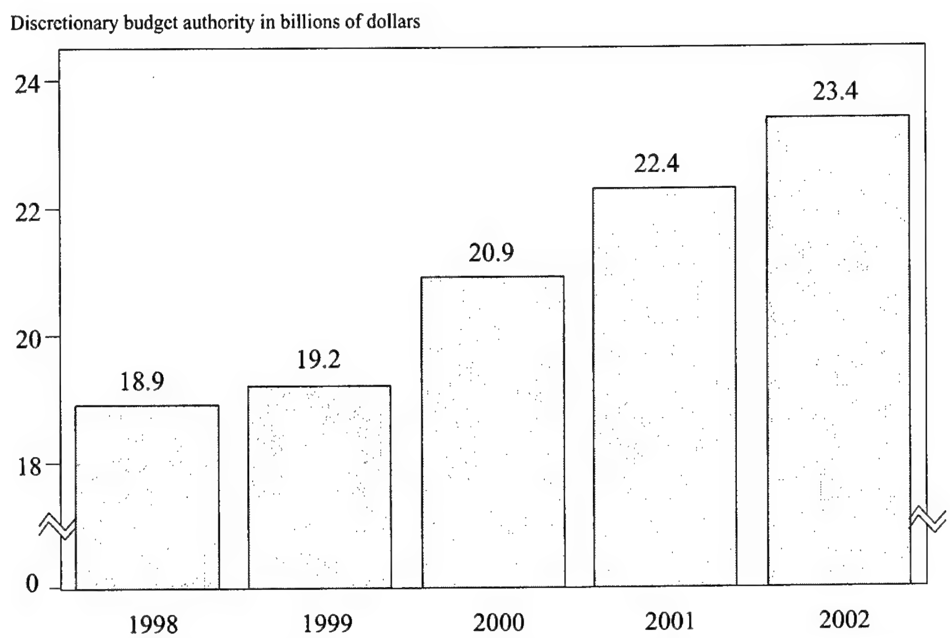
Redirected Resources

The National Defense Authorization Act, 2001, authorized a new Department of Defense (DOD) benefit for military retirees over age 64 who have Medicare coverage. These retirees will be able to use their own private doctors for free care and receive a generous drug benefit. Currently, 240,000 of these retirees are enrolled with VA for care. The budget assumes that 27 percent of them will switch to the DOD benefit in this first year, shifting $235 million in VA liabilities to DOD.

The budget also includes legislation for several proposals that will yield net mandatory savings totaling $2.5 billion over the next 10 years. The first eliminates VA's vendee

Chart 29-1. Department of Veterans Affairs

5.5% Average Annual Growth, 1998-2002



home loan program. It is unrelated to VA's mission because it allows the general public to obtain a direct loan from VA to purchase a home that VA has acquired when a veteran defaults on a loan. The general public may obtain financing from various other public and private institutions for this purpose. Other proposals would extend permanently certain mandatory savings authorities that would otherwise expire over the next several years.

Potential Reforms

Both the budget and the President's National Security Directive on Military Quality of Life reflect the Administration's commitment to improve VA health care for those veterans eligible for treatment in the system by enhancing access to timely, high-quality care. The President will convene a Veterans Health Care Task Force composed of officials and clinicians from VA and DOD, leaders of veterans and military service organizations, and leaders in health care quality to make recommendations for improvements.

To avoid duplication of benefits and enhance the quality and continuity of care, the Administration will focus on providing high-quality health care through a single source. Over 700,000 military retirees (all ages) are enrolled in both the DOD and VA health systems and may use either whenever they choose. As a result, DOD and VA encounter problems in allocating the necessary resources due to their difficulty estimating the number of people that will obtain health care services in each of the systems. The Administration will seek legislation to ensure that DOD beneficiaries who are also eligible for VA medical care enroll with only one of these agencies as their health care program. In addition, to ensure high-quality care and expanded access for the Nation's highest priority veterans, VA will focus its attention on treating disabled and low-income veterans.

VA has begun the assessment phase of an infrastructure reform initiative that will result in a health care system with enhanced capabilities to treat veterans with disabilities or lower incomes living in underserved geographic areas. Savings from the disposal of underused VA facilities will support these improvements. As VA awaits the recommendations from this multi-year assessment (referred to as CARES), it will continue to use expanded sharing agreements and contracting authorities with other health care providers.

VA will continue to reform its information technology. It will improve coordination among its administrations to plan for, implement, and use information technology to serve veterans. Reforms will include developing a common technological architecture, establishing common data definitions, and coordinating systems across VA, to improve cost-effectiveness and delivery of benefits and services to veterans.

30. CORPS OF ENGINEERS

Highlights of 2002 Funding

- Targets funds for completing priority ongoing projects, such as the environmental restoration work in the Florida Everglades.
- Reduces funding for studying potential new projects, given the $40 billion backlog of construction projects that are either ongoing or authorized but not started.
- Provides a funding increase for the Corps' program for evaluating proposed development in wetlands.

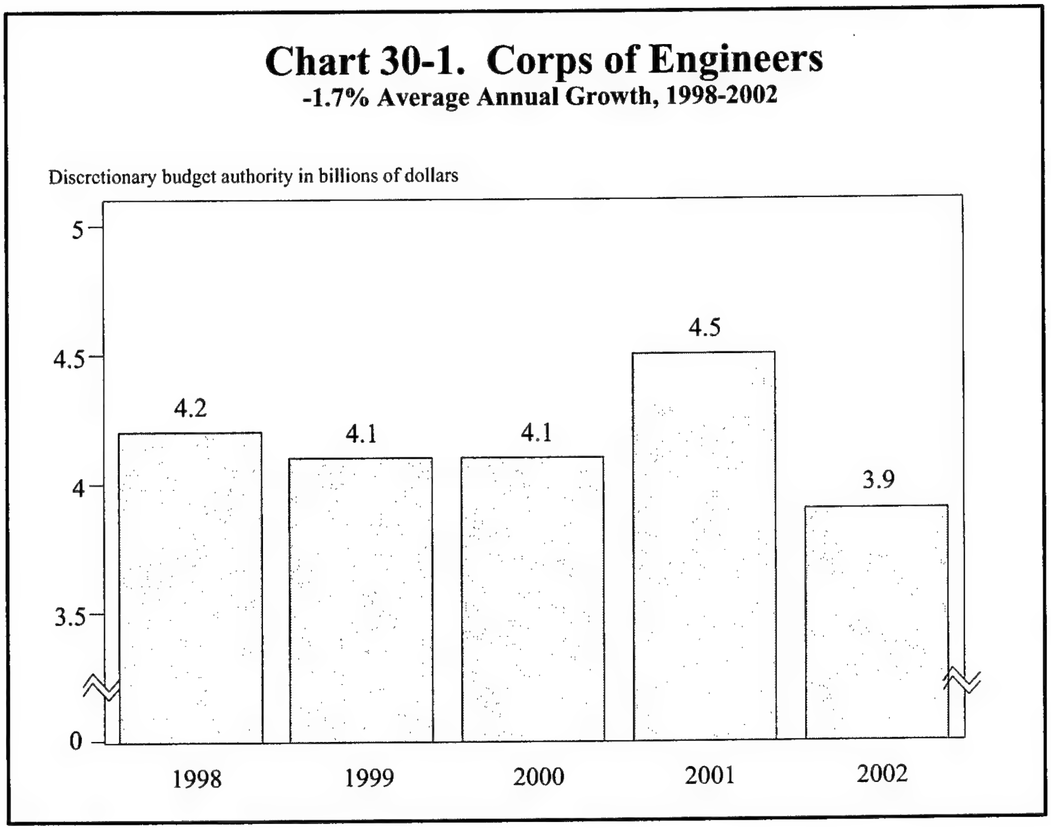
Redirected Resources

The budget includes a total of $3.9 billion in 2002 for the Corps of Engineers Civil Works (Corps) program. This is a $0.6 billion, or 14 percent, reduction from the high level of funding provided in 2001 for this program ($4.5 billion), and a $0.2 billion (five percent) reduction from 2000 ($4.1 billion), which was a more typical funding level for the Corps over recent years. In allocating Corps funds, the budget gives priority to projects and programs that provide significant national benefits in the Corps' principal mission areas—commercial navigation, flood damage reduction, and environmental restoration and enhancement.

Given the large backlog of funding needed to complete construction projects already underway ($21 billion), the budget focuses on completing ongoing projects, rather than starting construction of new projects that would add to this backlog and increase delays in completing ongoing projects. The budget also redirects funds from 2001 congressional add-ons that are inconsistent with established policies. In the operation and maintenance program, it gives priority to funding port and harbor and inland waterway activities that support significant commercial navigation. Funds are redirected from lower-priority activities, such as recreational harbors and low commercial-use inland waterway segments. For the Mississippi River and Tributaries program, the budget targets funds to high priority flood damage reduction projects, which are located on the mainstem of the Mississippi River and in the Atchafalaya River basin (Louisiana), and redirects funds away from ongoing projects that are not economically justified, are environmentally damaging, or violate other established policies.

Potential Reforms

In recent years, the Army and the Corps of Engineers headquarters significantly reduced their project-specific oversight of the Corps' project planning process. Serious questions have been raised about the quality, objectivity, and credibility of Corps reports on the economic and environmental feasibility of proposed water projects. A recent Army Inspector General (IG) investigation found strong indications that an institutional bias might extend throughout the Corps in favor of large-scale construction projects, which "created an atmosphere where objectivity in [the Corps'] analyses was placed in jeopardy." The Army and its Corps of Engineers have taken steps to start to address these concerns, including clarifying the roles and responsibilities of the Assistant Secretary of the Army for Civil Works and the Chief of Engineers. In addition, the ability of the Office of the Assistant Secretary of the Army for Civil Works to review Corps of Engineers



planning reports and oversee the Corps' planning process will be strengthened. The Administration is evaluating additional steps, including the need for independent review of Corps planning reports involving controversial or costly projects.

31. ENVIRONMENTAL PROTECTION AGENCY

Highlights of 2002 Funding

- Provides more than $1 billion in grants for States and Tribes to administer environmental programs, the highest level in the Environmental Protection Agency's (EPA's) history.
- Funds EPA's Operating Program, which comprises its core regulatory, research, and enforcement activities, at $3.7 billion—the second highest level ever, and higher than 2001 if unrequested projects are excluded.
- Provides wastewater grants to States at a level $500 million more than requested by the previous Administration for 2001, and directs a portion of those grants to newly authorized sewer overflow control grants.

Initiatives

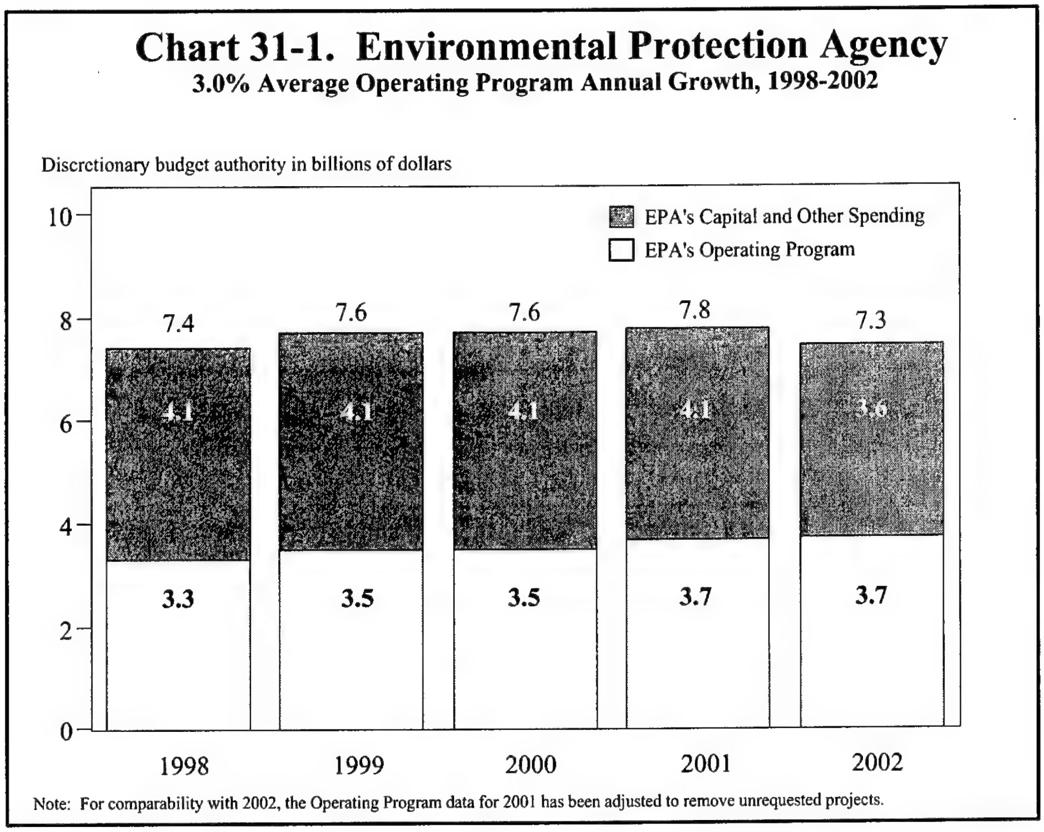
Under this Administration, the Environmental Protection Agency (EPA) will work for the American people to protect the air, land, and water, while building on the premise that environmental protection and economic prosperity should go hand in hand. EPA will also work to provide more flexibility to States and local communities to craft solutions that meet their unique situations. For example, Brownfields (abandoned industrial sites) should be cleaned to protect human health and the environment, while allowing affordable cleanups and flexible approaches. Legal obstacles to cleanups should be removed, the Brownfields tax incentive made permanent, and Federal financial assistance made more effective by cutting red tape and reforming existing funding mechanisms. Brownsfield cleanup and redevelopment is important because it revitalizes urban communities by improving public health and environmental conditions, boosting local property tax rolls, and providing jobs.

Redirected Resources

EPA's 2002 proposed funding level of $7.3 billion is $56 million more than the previous Administration's 2001 request. The $499 million reduction from the enacted 2001 level is almost entirely due to the elimination of unrequested earmarks. These reductions are being taken Government-wide and are consistent with EPA's historic practices. EPA's Operating Program, the core of its regulatory, research, and enforcement activities, is funded at $3.7 billion, the second highest level in EPA history. Included within the Operating Program totals, EPA's program grants to State and Tribal governments are funded at the highest level ever, at more than $1 billion. These grants help States and Tribes administer programs delegated to States and Tribes under Federal environmental statutes.

Wastewater grants to States are funded at $1.3 billion, which is $500 million more than requested by the previous Administration for 2001. The Clean Water State Revolving Loan Fund will be funded consistent with EPA's long-standing $2 billion per year revolving fund goal. To address Federal mandates to control the biggest remaining municipal wastewater problem, the EPA will request that a portion of these funds be used for the newly authorized sewer overflow control grants.

EPA will also redirect resources to develop new, more effective methods to achieve environmental progress. EPA will set high



standards for environmental protection, make those expectations clear, and focus on results and performance. To reach those goals, EPA will place a greater emphasis on innovative approaches to environmental protection, such as market-based incentives. EPA will also achieve savings by maintaining workyears at the current onboard level.

Potential Reforms

The Federal Government will continue to play a crucial role in environmental protection, and EPA will seek higher levels of cooperation among stakeholders. Currently, the States enforce most environmental laws through delegated State programs. It is estimated that more than 80 percent of environmental enforcement actions and more than 97 percent of environmental inspections are done by the States. An alternative way to supplement State enforcement efforts would be to increase State enforcement grants. Such a transfer would not jeopardize the EPA's ability to continue enforcement of non-delegated programs or to oversee delegated programs. Further, this would allow States to prioritize their enforcement needs and determine the proper mix between compliance assistance and prosecution.

In addition, this Administration's EPA will place an emphasis on making better and more appropriate use of information and analysis. The Inspector General, the General Accounting Office, the National Academy of Public Administration, and the Environmental Council of the States have all identified the lack of performance information to hold programs accountable and inform decisions as a top management challenge. EPA will aggressively address this issue.

In addition, EPA intends to improve the role of science in decision-making by having scientific information and analysis help in directing policy and establishing priorities. The EPA will also enhance its approach

to environmental information by making data collection and management more efficient and more accurate, reduce paperwork for regulated entities, and standardize business practices. Currently, Federal environmental data are in separate, single-media systems (air, water, solid and hazardous waste). These data cannot be easily integrated. Several innovative States have begun a better way to manage environmental information. These States are reducing the cost of collecting, managing, and using environmental information through integration and consolidation of data. Reforming the EPA's approach to data collection will facilitate results-based management and multimedia approaches, enable data-sharing across programs, improve access to information, and integrate geographic information. EPA will request $25 million in grant funding to help States better integrate their environmental information systems.

32. FEDERAL EMERGENCY MANAGEMENT AGENCY

Highlights of 2002 Funding

- Fully funds Federal Emergency Management Agency's (FEMA) core operations at $2 billion in 2002.
- Reforms the disaster relief program by implementing a public building insurance requirement and reducing the Federal share for hazard mitigation grants, saving $166 million.
- Maintains funding at $140 million for the Emergency Food and Shelter Program, administered by a board of charitable, non-profit, and faith-based organizations.
- Terminates the Project Impact disaster preparedness campaign, which has not proven effective, saving $25 million.
- Phases out an unneeded fire grant program, saving $100 million.
- Reforms the National Flood Insurance Program, saving $12 million.

Initiatives

Disaster Relief: Proposed resources allow full funding of the Federal Emergency Management Agency's (FEMA's) disaster relief operations, including $1.4 billion in funds to be appropriated to FEMA for obligations from prior year disasters and base disaster support operations. An additional $1.2 billion has been allocated to the National Emergency Reserve to finance costs associated with significant new disasters.

Redirected Resources

Disaster Relief: The budget achieves savings associated with two disaster relief reforms. First, $83 million in savings are achieved by requiring that public buildings carry disaster insurance (assumes a three-year phase in of policy). Second, an additional $83 million in savings is obtained by reducing the Federal share of funding for hazard mitigation grants from 75 percent to 50 percent, the pre-1993 practice for this program. These changes will help to ensure that States and localities make a significant commitment to preparing for disasters before they happen.

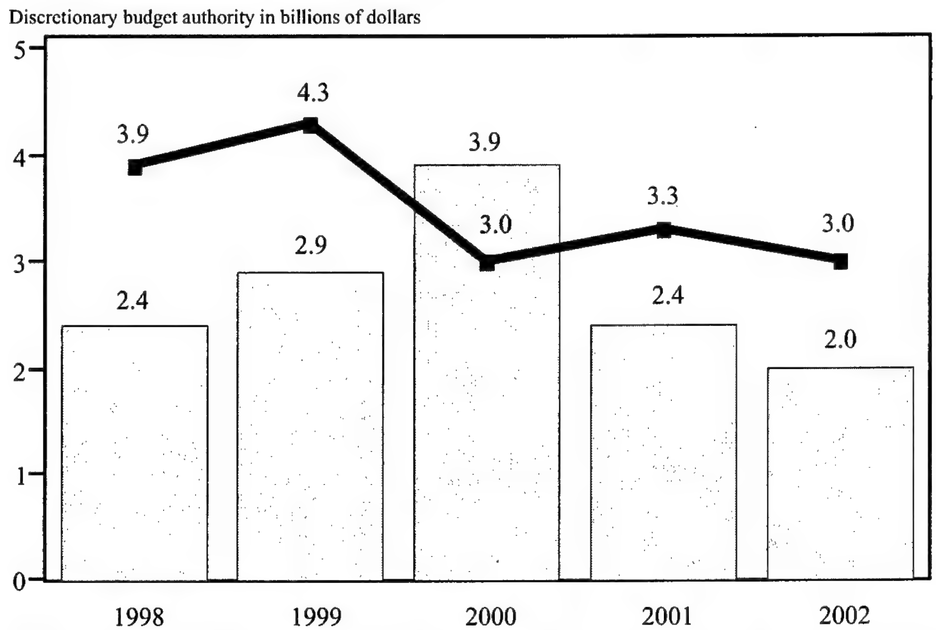
Cerro Grande Fire Claims and Hurricane Floyd Buyout: Estimated savings of $208 million in excess appropriations are taken in the Cerro Grande Fire Claims Fund (–$150 million) and the Hurricane Floyd buyout program (–$58 million). If these estimates are correct and these appropriations are not needed for these claims, the funds will be returned to the Treasury Department.

Project Impact: $25 million in savings are achieved by canceling the Project Impact disaster preparedness campaign, which has not proven effective.

Fire Grant Program: An additional $100 million in savings are achieved by the non-renewal of a new fire grant program, which was authorized for only two years and which does not represent an appropriate responsibility of the Federal Government.

Chart 32-1. Federal Emergency Management Agency

-6.6% Average Program Level Annual Growth, 1998-2002



Note: The line represents program level, which reflects the total amount of budgetary resources used. The bars represent net budget authority and do not include carry-over balances. For 2002, additional disaster-related funding is provided through the National Emergency Reserve, an unallocated reserve for unforeseen emergency disaster needs.

National Flood Insurance Program: Further, two cost saving reforms end preferential treatment of certain properties in the National Flood Insurance Program. First, flood insurance coverage would no longer be available for several thousand "repetitive loss" properties. These properties are located in the flood plain and are flooded regularly, but are not required to pay risk-based premiums. As a result, they have been rebuilt multiple times with the subsidized support of other flood insurance policy holders and U.S. taxpayers. The budget seeks to begin removing the worst offending repetitive loss properties from the program in 2002. Policyholders whom FEMA has identified as repetitive loss claimants will be allowed to make one more claim before having their policies terminated. Second, subsidized premium rates for vacation homes, rental properties, and other non-primary residences and businesses would be phased out. FEMA charges many of these policyholders less than actuarial rates, which undermines the financial stability of the insurance program. Savings from these proposals are estimated at $12 million in 2002.

Opportunities for Reform

Disaster Assistance Criteria: Neither the States nor the Federal Government currently have a clear definition of when and under what circumstances a Federal disaster declaration should be made. FEMA plans to develop improved guidelines for disaster assistance that provide States with meaningful criteria that must be met in order to become eligible for Federal disaster assistance. Without clear and consistent rules for Federal intervention and assistance following disasters, FEMA runs the risk of rewarding some States that do not need assistance while ignoring the legitimate needs of others. This reform effort will help to clarify the disaster declaration process, enabling both the States and the Federal Government to better delineate their respective roles in disaster recovery.

33. NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Highlights of 2002 Funding

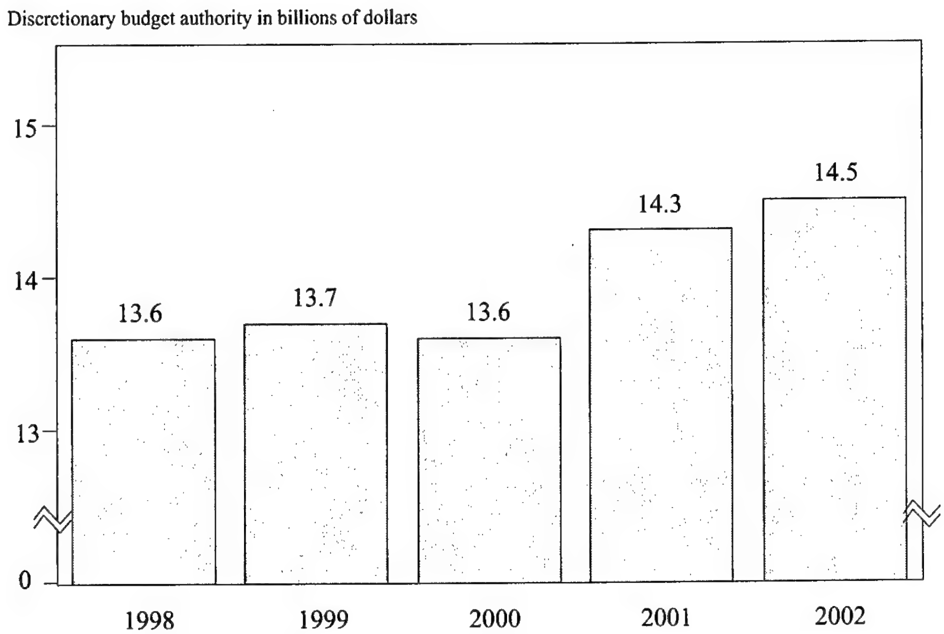
- Provides $14.5 billion for the National Aeronautics and Space Administration (NASA), a two-percent increase over 2001 and a seven-percent increase over 2000.
- Provides increased funding for International Space Station development and operations consistent with a strategy of constraining Space Station cost growth. Growth in development and operations is largely offset through budget reductions in Space Station hardware and other Human Space Flight programs and institutional activities. NASA will be undertaking a number of management reforms to bring Space Station costs under control.
- Provides a 64-percent increase over 2001 for NASA's Space Launch Initiative. This increase continues NASA's commitment to provide commercial industry the opportunity to meet NASA's future launch needs and to dramatically reduce space transportation costs and improve space transportation safety and reliability.
- Funds a more robust Mars Exploration Program.
- Funds a science-driven program of prioritized follow-on missions for second-generation Earth Observing System measurements that will provide a greater understanding of how the Earth and its climate are changing, an increase of five percent over 2001.

Initiatives and Redirected Resources

International Space Station: Recent cost growth on the Space Station is estimated at approximately $1 billion for 2001 and 2002 and $4 billion for the next five years. To address this unprecedented cost growth and ensure that the program remains within the five-year budget plan, the President's 2002 Budget will include important decisions regarding the funding and management of the program while preserving the highest priority goals: permanent human presence in space, world-class research in space, and accommodation of international partner elements. Thus, the U.S. core will be complete once the Space Station is ready to accept major international hardware elements. The cost growth is offset in part by redirecting funding from remaining U.S. elements (particularly high-risk elements including the Habitation Module, Crew Return Vehicle, and Propulsion Module). In addition, funding for U.S. research equipment and associated support will be aligned with the assembly build-up. Future funding decisions to develop and deploy any U.S. elements or enhancements beyond completion of the U.S. core will depend on the quality of cost estimates, resolution of technical issues, and the availability of funding through efficiencies within the 2002 Budget runout for Space Station or other Human Space Flight programs and institutional activities. The budget will propose advance appropriations for the Space Station as a further means to cap Station spending—this cap may be adjusted upward if efficiencies and

Chart 33-1. National Aeronautics and Space Administration

1.5% Average Annual Growth, 1998-2002



offsets are found in other Human Space Flight programs and institution.

Space Science: To ensure successful execution of programs already underway, two projects with a very large escalation in cost, the Pluto-Kuiper Express and Solar Probe missions, will not be funded. To support a potential, future sprint to the planet Pluto before 2020, additional funds will be directed to key propulsion technology investments. The budget funds a more robust Mars Exploration Program and provides critical technology funding to support future decisions on high-energy astrophysics missions.

Earth Science: NASA has worked with the National Academy of Sciences to develop future Earth Science research priorities and, based on these priorities, has developed plans for the second generation of Earth Observing System (EOS) satellites. NASA's outyear plan for these satellites has been underfunded in recent years, but the budget will provide a five-percent increase in 2002 for a science-driven EOS Follow-On program while discontinuing low-priority remote sensing satellite and environmental application projects to ensure that EOS priorities can go forward.

Space Shuttle: The budget provides for a sustained level of six Space Shuttle flights per year and continues funding for Space Shuttle safety improvements, within which NASA will establish safety investment priorities for Shuttle safety upgrades and critical facilities.

Aero-Space Technology: The budget eliminates lower priority aeronautics programs and reduces under-performing information technology programs.

Potential Reforms

Fulfilling the President's promise to make Government more market-based, NASA will pursue management reforms to promote innovation, open Government activities to competition, and improve the depth and quality

of NASA's research and development (R&D) expertise. These reforms, described below, will help reduce NASA's operational burden and focus resources on Government-unique R&D at NASA.

International Space Station: NASA will undertake reforms and develop a plan to ensure that future Space Station costs will remain within the President's 2002 Budget plan. Key elements of this plan will: restore cost estimating credibility, including an external review to validate cost estimates and requirements and suggest additional options as needed; transfer Space Station program management reporting from the Johnson Space Center in Texas to NASA Headquarters until a new program management plan is developed and approved; and open future Station hardware and service procurements to innovation and cost-saving ideas through competition, including launch services and a Non-Government Organization for Space Station research.

Space Shuttle Privatization: NASA will aggressively pursue Space Shuttle privatization opportunities that improve the Shuttle's safety and operational efficiency. This reform will include continued implementation of planned and new privatization efforts through the Space Shuttle prime contract and further efforts to safely and effectively transfer civil service positions and responsibilities to the Space Shuttle contractor.

Space Launch Opportunities: NASA's Space Launch Initiative provides commercial industry with the opportunity to meet NASA's future launch needs, including human access to space, with new launch vehicles that promise to dramatically reduce cost and improve safety and reliability. NASA will undertake management reforms within the Space Launch Initiative, including: ensuring vehicle affordability and competitiveness by limiting requirements to essential needs through commercial services; creating requirements flexibility, where possible, to accommodate innovative industry proposals; validating requirements through external, independent review; implementing a well-integrated risk-reduction investment strategy that makes investments only after requirements and vehicle options are well-understood, to ensure viable competition by the middle of the decade for Station cargo and crew launch services; ensuring no set-aside funds for non-industry vehicles like the Space Shuttle; and achieving affordable, near-term successes in Next Generation Launch Services and Alternate Access to the Space Station, and integrating these near-term activities into longer-term planning.

Critical Capabilities: U.S. academia and industry provide a rich R&D resource that NASA can tap to strengthen its mission capabilities. NASA will develop an integrated, long-term agency plan that ensures a national capability to support NASA's mission by: identifying NASA's critical capabilities and, through the use of external reviews, determining which capabilities must be retained by NASA and which can be discontinued or led outside the agency; expanding collaboration with industry, universities, and other agencies, and outsourcing appropriate activities to fully leverage outside expertise; and pursuing civil service reforms for capabilities that NASA must retain, to ensure recruitment and retention of top science, engineering, and management talent at NASA.

34. NATIONAL SCIENCE FOUNDATION

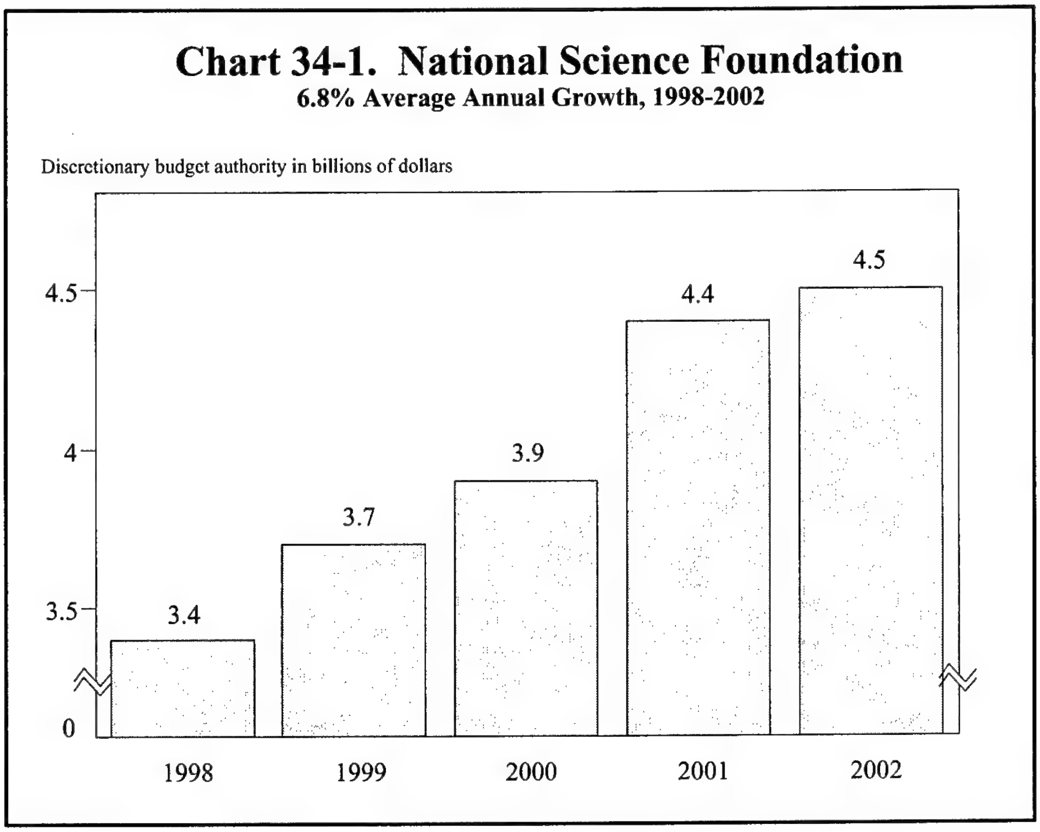
Highlights of 2002 Funding

- Provides $4.5 billion for the National Science Foundation (NSF), a $56 million increase from 2001. This level is more than $1 billion greater than 1998.
- Provides approximately $1.5 billion for new research and education awards in 2002, to fund nearly 10,000 new competitively reviewed awards.
- Provides $200 million to begin the President's Math and Science Partnership initiative to provide funds for States to join with institutions of higher education in strengthening math and science education in grades K-12.
- Provides $20 million for multidisciplinary mathematics research. This investment will enhance the transfer of results and applications from mathematics and statistics research to the science and engineering disciplines, challenge the limits of current mathematical theories, and develop a new cadre of researchers who are trained in both mathematics and science. These funds will enhance America's preeminence in mathematical sciences.
- Increases graduate stipends for the Graduate Research Fellowships, the Graduate Teaching Fellowships in K-12 Education, and the Integrative Graduate Education and Research Traineeships programs. These funds will help attract the best students to pursue careers in science and engineering.

Initiatives

Math and Science Partnerships: As America enters the 21st Century, many of our neediest students are being left behind. The current state of grade K-12 mathematics and science education in the United States raises significant warning signs. The most recent evidence of deficiencies in U.S. math and science education is from the Third International Math and Science Study, which measured American students in the fourth, eighth, and twelfth grades against comparable students in other countries. Although U.S. fourth graders did relatively well in both math and science, by twelfth grade, the last year of mandatory schooling, U.S. students were among the very worst in the world, and in some areas, such as physics, were last. This evidence indicates that our schools are not preparing our students adequately for today's knowledge-based, technologically rich society or to become future scientists and engineers. Among the underlying causes for the poor performance of U.S. students in the areas of math and science, three problems must be addressed: too many teachers teaching these subjects for which they have not been trained; too few students taking advanced coursework; and too few schools offering challenging curriculum and textbooks

To address these issues, the President is proposing that the National Science Foundation (NSF) initiate a Math and Science Partnership program to provide funds for States to join with institutions of higher education in strengthening K-12 math and science education. The higher education community recognizes that it has a vested interest in working to improve elementary and secondary math and science achievement. More than 20 States have begun to form partnerships with colleges and universities for the purpose of raising math and science standards for students, providing math and science training for teachers, and creating innovative ways to reach



underserved schools. For 2002, the President is requesting $200 million for the Math and Science Partnership program and $1 billion over five years. States that access these funds will be required to establish partnership agreements with State colleges, universities, community colleges and school districts, with the goal of strengthening K-12 math and science education. The success of partnerships between States and institutions of higher education will be measured through performance indicators such as improving student performance on State assessments, increasing student participation in advanced courses in math science and their success in passing advanced placement exams, and increasing the numbers of teachers that major in math or science.

Redirected Resources

The 2001 enacted level for NSF included a number of earmarked and lower-priority projects. While the majority of projects must be assessed on their merits through an extensive review process, many of these projects do not face such scrutiny and often address lower-priority areas or needs. The 2002 Budget does not renew funding for these projects, saving $45 million.

The budget also better focuses facility project resources by maintaining commitments for the Large Hadron Collider, the Network for Earthquake Engineering Simulation, and Terascale Computing Systems. Facility project spending will be reduced by $13 million, reflecting no new starts of major facility projects in 2002.

As part of the Math and Science Partnership initiative, $110 million is redirected from existing NSF education programs toward the initiative's $200 million level in 2002.

Potential Reforms

At NSF there are several opportunities for management reforms that will assist the agency in carrying out its mission and planning for the future. The Administration has identified at least three management reform opportunities that will help fulfill the President's promise to make Government more results-oriented.

Reorganize Research in Astronomy and Astrophysics: NSF and NASA provide more than 90 percent of Federal funds for academic astronomy research and facilities. Historically, NASA has funded space-based astronomy and NSF has funded ground-based astronomy, as well as astronomy research proposals. Several changes have evolved which suggest that now is the time to assess the Federal Government's management and organization of astronomical research. NSF and NASA will establish a Blue Ribbon Panel to assess the organizational effectiveness of Federal support of astronomical sciences and, specifically, the pros and cons of transferring NSF's astronomy responsibilities to NASA. The panel may also develop alternative options. This assessment will be completed by September 1, 2001.

Improve the Efficiency of the Research Process: The current size of NSF grants and their duration might be resulting in an inefficient research process at U.S. academic institutions. Researchers might be spending too much time writing grant proposals instead of doing actual research. NSF has increased grant size and duration in previous years, particularly through its priority research areas; however, there is little documentation that this is having a positive impact on research output. With the assistance of U.S. academic research institutions, NSF will develop efficiency measures of the research process and determine what is the right grant size for the myriad types of research the agency funds. These metrics and grant size determinations will be developed in time for consideration of the 2003 Budget.

Increase NSF's Ability to Manage Large Facility Projects: NSF is managing several multi-year, large facility projects. NSF's capability to manage proposed projects needs to be enhanced given the magnitude and costs of these projects. NSF will develop a plan to enhance its capability to estimate costs and provide oversight of project development and construction. This plan should help ensure that NSF is able to meet and stick to cost and schedule commitments for major facility projects.

35. SMALL BUSINESS ADMINISTRATION

Highlights of 2002 Funding

- Promotes the Drug Free Workplace Program ($5 million).
- Helps small businesses comply with the Americans with Disabilities Act ($5 million).
- Makes the 7(a) General Business Loan and Small Business Investment Company Securities programs self-financing by eliminating subsidies, which saves $141 million.
- Provides funding for the Small Business Development Centers (SBDCs) program at a level of $88 million, while reducing the SBDCs' reliance on Federal support by establishing a nominal fee for SBDC services.
- Eliminates Congressional earmarks and redundant programs, including New Markets Venture Capital loan and technical assistance and BusinessLINC programs, which saves $100 million.
- Supports a $300 million base loan volume level for Small Business Administration's Disaster Loan program. Additional funding from the unallocated National Emergency Reserve for unforseen disaster needs will be made available if the need arises.

Initiatives

Drug Free Workplace Program: The 2002 Budget supports grants to organizations that help small businesses develop employee education programs and company drug policies. To date, the Small Business Administration (SBA) has not been able to meet the demand for assistance from intermediary partners; in 1999 SBA received 160 grant applications from intermediaries, but issued only 16 grants. To help meet this need, the President's Budget includes $5 million and proposes to spend $25 million over the next five years.

The New Freedom Initiative: The budget includes $5 million for technical assistance to help small businesses comply with the Americans with Disabilities Act, serve customers, and hire more people with disabilities.

Redirected Resources

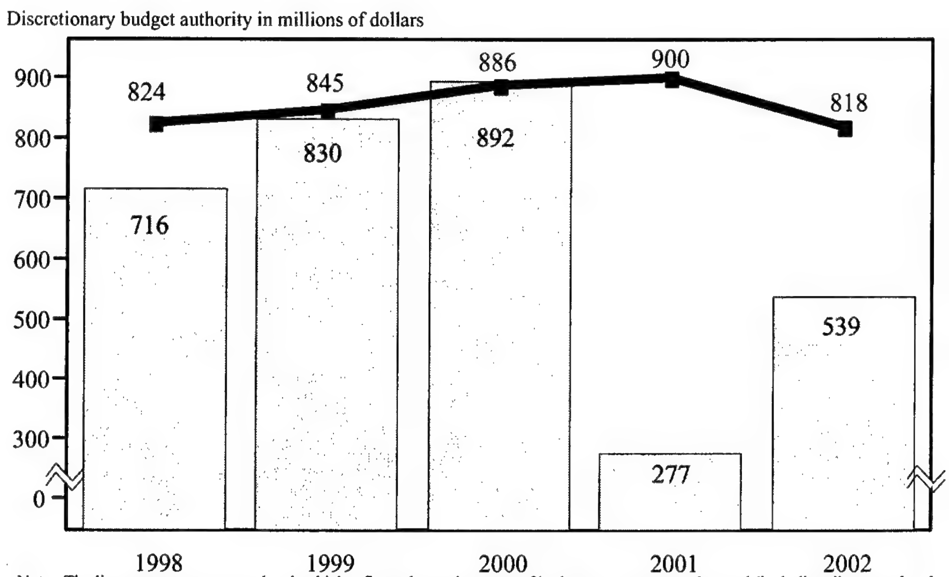
7(a) General Business Loan and Small Business Investment Company Securities programs: These programs will become self-financing by increasing fees. The budget acknowledges that some small businesses may have trouble accessing private capital in the absence of a Government guarantee, but does not require the Government to subsidize their cost of borrowing. The budget increases fees sufficiently to make these programs self-financing and would save $141 million.

Small Business Development Centers (SBDCs): The SBDCs program will impose nominal fees for its services, thereby recognizing that these services have value while decreasing the SBDCs' reliance on Federal assistance.

Congressional Earmarks and Redundant Programs: Further cost savings of $100 million are achieved by reducing or eliminating Congressional earmarks and redundant programs, including the New Markets Venture Capital (NMVC), NMVC Technical Assistance, and BusinessLINC programs. The New

Chart 35-1. Small Business Administration

-0.2% Average Program Level Annual Growth, 1998-2002



Note: The line represents program level, which reflects the total amount of budgetary resources to be used (including disaster-related funding) and also excludes the collection of proposed fees in 2002. The bars represent net budget authority and do include carry-over balances. For 2002, additional disaster-related funding is provided through the National Emergency Reserve, an unallocated reserve for unforeseen emergency disaster needs.

Markets initiative already includes a 30-percent tax credit, which is expected to induce $15 billion (over 10 years) in new targeted investments, making a separate small SBA discretionary spending program unnecessary. Additionally, economically distressed communities and individuals have access to a wide range of private for-profit and non-profit microenterprise organizations, including federally supported community development financial institution organizations, which further calls into question the necessity for separate SBA programs.

Potential Reforms

Asset Loan Sales Program: SBA has initiated an ongoing, $10 billion loan asset sale program that is serving as a catalyst for transforming the mission of the agency and redefining the functions performed by its employees. Asset sales will free SBA resources currently devoted to portfolio management, allowing SBA to focus instead on cultivating private credit markets for small businesses and additional lender oversight. As part of this transformation, SBA will immediately undertake an analysis of all areas of its operations, including exploring the feasibility of contracting out all loan servicing activities and closing redundant or unneeded loan servicing centers.

To help SBA manage its workload more efficiently and to accomplish the work force transformation effort with a minimum of disruption, the budget provides $10 million to continue the systems modernization effort and to provide training and relocation assistance to SBA employees who are adversely affected by the transformation effort. At the same time, SBA will examine streamlining its delivery systems.

36. OTHER AGENCIES

Corporation for National and Community Service

The Corporation provides opportunities for 1.5 million Americans of all ages to engage in community-based service that addresses the Nation's educational, public safety, environmental and other human needs. The budget proposes $733 million for the Corporation, to support 50,000 AmeriCorps members and expand opportunities for seniors to serve their community.

The budget includes $203 million for the National Senior Service Corps, a $14 million increase over 2001 and the first step of the President's strategy to increase the annual funding for the Senior Corps to $250 million over five years. In addition, the budget provides $35 million in new senior initiatives, including:

- $20 million for a Silver Scholarship program to allow older Americans to volunteer 500 hours of service tutoring and mentoring students in after-school programs in exchange for a $1,000 scholarship that can be deposited in an education savings account for use by their children, grandchildren, or another child; and
- $15 million for a Veterans Mission for Youth program that provides matching grants to community organizations that connect veterans and military personnel with America's youth through mentoring, tutoring, after-school and other programs.

The Corporation maintains a trust fund from which to pay AmeriCorps education awards. In 2002, the Corporation has sufficient balances to pay all demands for education awards and does not need to continue the 2001 appropriation for the trust fund.

Over the next year, the Corporation will also seek innovative ways to complement the President's initiative to strengthen faith-based service groups. It will review higher cost programs and assess if program consolidations and streamlining will offer opportunities for continuing service at the 2002 level.

Equal Employment Opportunity Commission (EEOC)

The budget requests $310 million for EEOC, an increase of $7 million, or 2.3 percent, over the 2001 enacted level. This includes funding to meet increased staff costs. The Commission will continue to dedicate resources to further reduce its backlog of private sector cases and utilize technology and other strategies to improve the processing of discrimination charges.

General Services Administration (GSA)

The budget provides $503 million for GSA (net discretionary budget authority), primarily for the Office of Governmentwide Policy, the Office of Inspector General, and the construction of Federal buildings. However, the budget estimates obligations exceeding $18 billion through GSA's revolving funds. This spending level:

- Funds one of the largest repair and alteration programs ever. More than $827 million is proposed for the repair and alteration of Federal buildings, financing 34 major rehabilitation projects.
- Provides over $500 million, including $276 million in advance appropriations included in the 2001 Budget, for the design and/or construction of 13 courthouse projects.
- Increases GSA's critical infrastructure program by 38 percent to support the Government's response to attacks on its information systems infrastructure.
- Continues the FirstGov initiative, which provides a central site for Internet access to all online government information
- Provides $10 million in 2002 as the first installment of a $100 million fund to support the interagency electronic Government (e-gov) initiative.

Legal Services Corporation (LSC)

Since its creation in 1974, LSC has provided grants to local organizations that provide civil legal advice to low-income clients across the country. These grants account for approximately half of the operating budgets of these organizations. LSC-funded programs serve every State and county in the Nation. The 2002 Budget provides funding at the 2001 enacted level of $329 million. Ninety-seven percent of these funds will be distributed to grant recipients across the country.

The most common types of cases handled by grant recipients are related to family law, domestic violence, housing, employment, Government services, and consumer matters. Two-thirds of their clients are women, many of whom have young children. LSC's clients are as diverse as the Nation, encompassing all racial and ethnic groups of all ages. LSC-funded programs do not handle criminal cases, nor do they accept fee-generating cases. In 1996, Congress passed a series of new restrictions on the activities of programs receiving Federal funds. These limitations provide that LSC-funded programs may not challenge welfare reform, represent non-documented persons, request attorneys' fees, litigate of behalf of prisoners, or bring class action lawsuits.

National Endowment for the Arts (NEA)

NEA supports individual and group efforts to achieve excellence in the arts and promotes artistic endeavors as an avenue to serving the American public. Specific programs enhance personal development in the arts, arts education, preservation of American arts heritage, expansion of the arts to under-served regions and populations, and investigation of non-Federal sources for support of national arts activities. The 2002 Budget provides for the continuation of programmatic activities at the 2001 enacted level and includes an increase to fund Federal staff costs. It also offers States greater say in how funding is spent.

National Endowment for the Humanities (NEH)

NEH supports activities designed to promote national progress in the humanities. Specific programs are aimed at improving the quality of humanities scholarship, the preservation of national humanities resources, and increasing the accessibility of the humanities to the American public. The 2002 Budget provides for the continuation of programmatic activities at the 2001 enacted level and includes an increase to fund Federal staff costs.

Railroad Retirement Board (RRB)

RRB administers retirement/survivor and unemployment/sickness insurance benefits for the Nation's railroad workers and their families. The railroad retirement system includes a benefit equivalent to Social Security benefits and a pension benefit. The 2002 Budget proposes an increase to fund Federal staff costs to administer the program. The railroad retirement system's pension program is not fully funded like other private industry pension plans; indeed, there is a $39.7 billion unfunded liability. Any examination of the program should set as first priorities ending taxpayer subsidies to the program and ensuring the industry funds its workers' pensions.

Smithsonian Institution

The 2002 Budget provides $494 million, a $40 million, or nine percent, increase over 2001. The Smithsonian operates 14 museums in Washington, D.C. and New York City, the National Zoo, and research facilities for astrophysical research in Cambridge, MA, tropical research in Panama, and environmental research on the Chesapeake Bay. For salaries and expenses, the budget proposes $396.2 million. Within this request, the Smithsonian will redirect some funds from within its base programs to fund new initiatives in information technology and outreach activities.

The 2002 Budget includes $97.9 million for repair, restoration, and construction of Smithsonian buildings. This represents an increase of $30.8 million, or 46 percent, over 2001. It includes $30 million toward fulfilling the Federal commitment to complete the National Museum of the American Indian on the Mall. The budget also provides funds for the continuing renovation of the Patent Office Building, the Nation's third oldest Government building in Washington, D.C.,

and the home of the Smithsonian's American Art Museum and the National Portrait Gallery.

The Smithsonian, along with other cultural agencies in the Nation's capital such as the National Gallery of Art, the U.S. Holocaust Museum, and the Kennedy Center for the Performing Arts, needs to focus on maintaining its existing buildings and facilities. Within the next year, each agency will prepare a plan that encompasses long-range estimates for maintenance of its facilities and buildings as part of a broad review of future needs.

The Smithsonian, as well as the other cultural agencies, operates as a partnership between the Federal Government and the private sector. Although some funds are federally appropriated, the Smithsonian also depends on gifts and donations from the private sector. In order to allow analysis of the agency's total budget and needs for Federal funds, it is necessary to understand its budget in totality. The Smithsonian will improve the reporting of its public and private budget needs and plans to the public.

Social Security Administration (SSA)

SSA is responsible for paying benefits to more than 50 million people every month, processing more than six million claims for benefits each year, handling approximately 59 million phone calls to its 800-number, and issuing 138 million Social Security statements that help provide a broad-based understanding of the Social Security program.

The budget proposes $7,672 million for SSA, an increase of $456 million, or 6.3 percent, above the 2001 enacted level of $7,216 million. This amount includes sufficient resources to ensure stable staffing in 2002 and will allow SSA to maintain performance in key service delivery areas, such as retirement claims processing. It will allow SSA to process about 100,000 more initial disability claims in 2002 than in 2001. This funding also will help SSA to continue its multi-year continuing disability review (CDR) plan, eliminating the CDR backlog in 2002, as well as significantly increase the non-disability redetermination effort. In addition, this amount includes resources for SSA to continue to modernize its computer infrastructure and continue with its efforts to offer services in an online environment.

VIII. BUDGET PROCESS REFORM

VIII. BUDGET PROCESS REFORM

In recent years, the Nation has turned to Washington in the Fall, wondering if the Government will shut down because Republicans and Democrats cannot agree on a budget. And following each year's chaos and brinkmanship there are cries for budget process reform to prevent repetition of the spectacle. Important changes can be made, but the heart of the problem lies not in the integrity of the budget process, but in the deterioration of Congress' adherence to existing rules.

This past year was typical. As Congress failed to meet its deadlines and legislation piled up at the end of the fiscal year, Washington made hasty decisions simply to keep the Government running under the imminent threat of a Government shutdown. Congress enacted 21 temporary funding laws to keep the Government open while President Clinton and Congress negotiated an agreement on a huge omnibus spending bill. That omnibus measure comprised nine separate bills, totaling 2,080 pages, and was finally signed into law on December 21st, nearly three months after the beginning of the fiscal year.

The end product exceeded Congress' budget by $36 billion and the President's Budget by $13 billion for 2001 alone. It contained over 6,000 earmarks, or unrequested projects, for a total cost of over $15 billion.

To provide for a more orderly and responsible budget process and to wrest waste out of the Federal budget, the President proposes immediate and structural reform measures.

Immediate Action:

- Restore an atmosphere of order and respect for the legally established process. In addition to the reforms outlined here, the ultimate reform the President calls for is responsibility in the conduct of the people's business;
- Abide by the budget. Once Congress agrees to a budget, it should abide by the limits established therein. Ultimately, the President proposes that the resolution be a law, requiring his approval. Until that time, the President wants to work with the Congress to adopt and abide by a budget that contains total spending within a reasonable limit determined in advance;
- Establish a National Emergency Reserve fund to budget for true emergencies;
- Eliminate advance appropriations except where clearly justified;
- Complete action on appropriations bills in an orderly and timely fashion to avoid Government shutdowns; and
- Curtail congressional earmarking, especially for special interest spending.

Structural Reforms:

- Enforce and extend limits on spending and the "pay-as-you-go" (PAYGO) requirement.
- Convert the annual budget and appropriations process to a biennial cycle.
- Make the current non-binding budget resolution a binding law.
- Restore the President's line-item veto authority.

In addition to the these initiatives, the President would support legislation to create a bipartisan commission to eliminate pork barrel spending and legislation to create a sunset review board to review agencies and programs periodically.

Spending Limits and Pay-As-You-Go

In 1990, Congress enacted the Budget Enforcement Act (BEA) with specific dollar limits on discretionary spending—amounts provided in annual appropriations acts—and a PAYGO requirement for all other legislation. The PAYGO requirement prohibits decreases in a surplus resulting from enactment of new laws that change mandatory spending—

spending not controlled by appropriations acts—or receipts. Under this provision, legislation to create or expand an entitlement program (such as unemployment benefits) or to reduce taxes would have to be offset by other legislation to reduce mandatory spending or increase receipts. From 1990 until 1998, these budget enforcement mechanisms provided an effective means to restrain the growth in Federal spending.

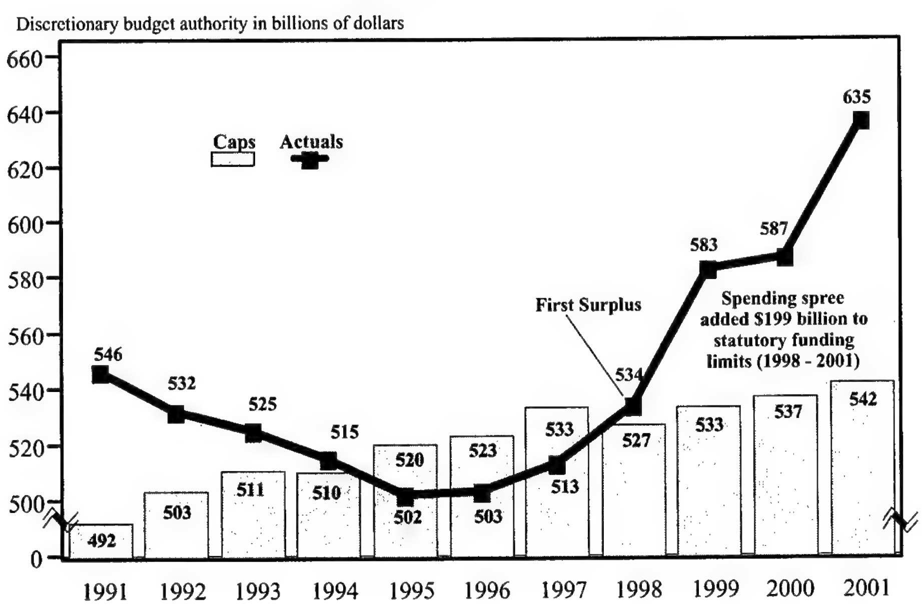
With the arrival of budget surpluses in 1998, however, President Clinton and Congress began to skirt these budget enforcement mechanisms. In 2001 alone, Federal spending is projected to exceed the spending limit by $95 billion. Congress and the previous Administration also waived the PAYGO requirement for $17 billion in spending. The failure to stick to these limits has caused the surplus to be reduced by roughly $2 trillion for 1998–2011. If spending continues at the same rate as in recent years, the surplus will be reduced by another $1.4 trillion over the next 10 years. (See Chart VIII–1.)

The past three years demonstrate that the greatest threat to the surplus and debt reduction is unrestrained growth in spending. To ensure that the Federal Government continues to pay down the debt, the President proposes limits that would allow discretionary spending to grow with inflation over the next five years. Budget limits and restraints have and can continue to limit the growth in Government, protect surpluses when needed, and achieve debt reduction.

At this stage, the Administration believes that capping the growth of discretionary spending provides more than adequate resources for the Government. Even so, the Administration recognizes that these caps may need to be modified in the future. In fact, the President's Budget sets aside a reserve for additional needs and contingencies that could provide, if justified, additional resources for discretionary spending.

The President also proposes to extend the PAYGO requirement for entitlement spending

Chart VIII-1. Budget Surpluses Lead to Bigger Government



and tax legislation. The President's Budget sets aside the Social Security surplus and additional on-budget surpluses for debt reduction and contingencies. These levels ensure the President's tax plan and his Medicare Helping Hand and modernization reforms are fully financed by the surplus. Any other spending or tax legislation would need to be offset by reductions in spending or increases in receipts.

Budgeting for Emergencies—The National Emergency Reserve

Emergency supplemental bills provided $28.6 billion more than was originally provided in the annual appropriations processes for 1997 through 2000. By definition, emergency appropriations are intended to cover unforeseen events or large domestic disasters. However, emergencies have become a recurring part of the budget process, and they have become magnets for special interest, non-emergency spending.

When Congress and the previous Administration could not find the resources to pay for the 2000 census, they designated a portion of the funding for the census as an "emergency." Other examples of items that clearly were not emergencies include: a Great Lakes icebreaker, a Treasury law enforcement training facility in West Virginia, the purchase of the Douglas Tract on the Potomac River, and funding for the 2nd Avenue subway in New York City.

Four programs make up a large part of the Federal Government's response to domestic disasters:

- Federal Emergency Management Agency's disaster relief fund;
- Department of Agriculture's fire fighting program;
- Department of the Interior's fire fighting program; and
- Small Business Administration's disaster loan program.

This budget proposes a strategy that will ensure adequate funding in the regular budget and appropriations process for the programs listed above, and will limit supplemental appropriations to extremely rare events by setting aside a reserve for emergency needs. The reserve will supplement the four programs when extreme conditions arise, and also supplement other Federal programs to the extent that domestic disasters occur where such programs must respond.

The budget includes adequate funding for a normal year for the four programs listed above, which covers base operations and routine disaster requirements (the request for new appropriations will take into consideration the availability of resources provided in previous years).

In addition, the National Emergency Reserve is intended to cover such large, extraordinarily events as Hurricane Andrew, the Midwest floods, and the Northridge earthquake. The amount of the reserve ($5.6 billion) will be based on the historical annual average of these large disasters.

- The release of resources from the reserve will need to be approved by both the President and Congress.
- Programs will be supplemented from the reserve fund only if the following conditions are met: first, the amount appropriated for the year in which the event occurs are equal or exceed the amount requested in the President's budget; second, the cost of the event exceeds the regular resources available to the program.
- Funding for emergencies should be limited to expenditures that are sudden, urgent, unforeseen, and not permanent.

Reversing Abusive Use of Advance Appropriations

An advance appropriation becomes available one year or more beyond the year for which the appropriations act is passed. From 1993 to 1999, an average of $2.3 billion in discretionary budget authority was advance appropriated each year. In 1999, advance appropriation funding totaled $8.9 billion, an increase of $5.8 billion from the previous year. Most of this increase was due to $4.8 billion in additional advance appropriations for the Education for the Disadvantaged account in the Department of Education.

While advance appropriations can be a legitimate funding practice to reflect and guarantee the full cost of construction or procurement for large capital programs, too often in recent years advance appropriations have been used to hide true spending levels by crediting them to other years. This budget practice distorts the debate over Government spending and misleads the public about spending levels in specific accounts.

In 2000, advance appropriations increased by $14.6 billion to over $23.4 billion. Increases in advance appropriations from the previous year included the following: the Department of Education ($6.2 billion); the Department of Housing and Urban Development ($4.2 billion); the Department of Labor ($2.5 billion); and the Department of Health and Human Services ($1.4 billion).

The 2001 Congressional Budget Resolution attempted to address this misuse of advance funding by including a cap on advance appropriations equal to the amount advanced in the previous year. In order to expand discretionary spending in 2001, certain advance appropriations were reduced and other advances were increased. This did not change the total amount that was forward funded, but did allow for growth in 2001.

The Administration proposes to reverse the misleading budget practice of using advance appropriations simply to avoid spending limitations. This proposal would not affect advance appropriations enacted for programmatic reasons, such as those funding multi-year construction programs.

Biennial Budgeting and Appropriations

Only twice in the last 50 years has the Congress enacted all 13 appropriation bills by the beginning of the fiscal year. According to the Congressional Budget Office, roughly one-third of domestic discretionary programs are operating under authorization statutes that have expired. Because Congress must enact 13 appropriations bills each year, it cannot devote the time necessary to provide oversight and resolve problems in other programs. The preoccupation with these annual appropriations bills frequently precludes review and action on the growing portion of the budget that is permanently funded under entitlement laws.

In contrast, a biennial budget would allow lawmakers to devote more time every other year to ensuring that taxpayers' money is spent wisely and efficiently. In addition, Government agencies would receive more stable funding, which would facilitate longer range planning and improved fiscal management.

Under the President's proposal for a biennial budget, funding decisions would be made in non-election years to help de-politicize the process. Moreover, lawmakers could devote more time to finishing the appropriation bills on time because the next year would be free for other legislative business.

Joint Budget Resolution

The budget process should allow the President and Congress to determine the overall fiscal course for the Federal Government. But under current law, neither the President's Budget nor the congressional budget has the force of law. As a result, the existing process discourages cooperation and encourages posturing.

The Congress currently develops the broad outlines of the budget through the adoption of a concurrent resolution that does not require the President's approval. The President is precluded from this first step of the process that implicitly ignores his power to sign and veto laws. There is little incentive for the President and Congress to reach early agreement on the broad outlines of a budget package, thus increasing the chance of a "train wreck" at the end of the process.

In contrast, a joint budget resolution would recognize that these two branches of Government must cooperate. A joint resolution requires the President's signature and has the force of law. This joint budget resolution would set the overall level of appropriations, mandatory spending, taxes, and debt reduction in a simple document. It would bring the President into the process at an early stage and, together with biennial budgeting, would help restore order to the budget process.

In the past, Congress and the President have at times used ad hoc negotiations at the beginning of the budget process to ensure

there is agreement on broad fiscal issues before Congress begins moving individual appropriations, entitlement, and tax bills. A joint budget resolution would formalize this process at the beginning of the year.

Government Shutdown Prevention

For 19 out of the past 20 years, Congress and the President have not finished their work by the October 1st deadline, the beginning of the new fiscal year. This past year, only two of the 13 appropriations bills were enacted by the beginning of the year. When Congress and the President fail to gain enactment of all 13 appropriations bills, the Congress frequently funds the Government through "continuing resolutions" (CRs), which provide temporary funding authority for Government activities at current levels until the final appropriations bills are signed into law. This past year, for example, Congress had to enact 21 separate CRs to keep the Government operating.

Congress must pass a CR and it must be signed by the President to provide funding for agencies. Absent enactment of a CR, the Federal Government is shut down. In the 1980s and 1990s, the Government has experienced shutdowns. Some have argued that the Clinton Administration regularly used the threat of a Government shutdown to extract spending increases from the Congress. These annual, often cynical rituals were destructive of public confidence and reflected poorly on all parties to the debate.

Important Government functions should not be held hostage simply because Washington cannot cut through partisan strife to pass temporary funding bills. In the responsible process the President envisions, appropriations bills would pass on time as the law requires, but a back-up plan to avoid the threat of a Government shutdown is a good idea. Under the President's proposal, if an appropriations bill is not signed by October 1 of the new fiscal year, funding would be automatically provided at the lower of the President's Budget or the prior year's level. The President's proposal would remove incentives for the President or the congressional leadership to use the leverage of "shutting down Government" to achieve spending objectives or to attach extraneous measures they could not otherwise obtain through the normal appropriations process.

Line-Item Veto

A perennial criticism of the Federal Government is that the annual budget contains too many special interest or "pork-barrel" spending items. The persistence of these special interest items erodes citizen confidence in Government. With the arrival of huge budget surpluses, there has been an explosion in spending and special interest spending.

Because appropriations bills must be enacted annually to fund the Government, they attract spending items that could not be enacted on their own. Particularly at the end of the congressional session, it is not uncommon for bills to move through the appropriations process quickly, often with little scrutiny. It is the rare Member who will challenge questionable spending for fear that provisions important to him or her will be challenged in return.

The result of this logrolling is that the President is left with an all or nothing proposition. He must either sign the entire appropriations bill with special interest projects or veto the entire bill and invite a potential Government shutdown.

The President proposes that the Congress correct a constitutional flaw in the Line Item Veto Act enacted in 1996. From the Nation's founding, Presidents have exercised the authority to decline to spend appropriated sums. However, this authority was curtailed in 1974, when Congress passed the Impoundment Control Act, which restricted the President's authority to decline to spend appropriated sums.

The Line Item Veto Act of 1996 attempted to give the President the authority to cancel spending authority and special interest tax breaks. The U.S. Supreme Court found that law unconstitutional.

The President proposes a line-item veto linked to retiring the national debt. This proposal would give the President the authority to decline to spend new appropriations, to decline to approve new mandatory spending, or to decline to grant new limited tax benefits

(to 100 or fewer beneficiaries) whenever the President determines the spending or tax benefits are not essential Government functions and will not harm the national interest. All savings from the line-item veto will be used to retire the national debt.

IX. GOVERNMENT REFORM

IX. GOVERNMENT REFORM

To meet the challenges and opportunities of a global marketplace, American businesses have had to radically restructure. Corporations have moved from centralized organizations to decentralized ones, from made-to-stock production to made-to-order, from mass standardization to mass customization.

Many State and local governments have also changed, but the Federal Government needs to increase the pace of change as well. The structure of the Federal Government was in large part developed more than 50 years ago and no longer meets the needs of today's citizens. This structure was designed so that stock solutions would flow from Washington along carefully established bureaucratic hierarchies. The result is a Federal Government today that is both insensitive and expensive.

True Government reform must be based on a reexamination of the role of the Federal Government. The President has called for "active, but limited" Government: one that empowers States, cities, and citizens to make decisions; ensures results through accountability; and promotes innovation through competition. Thus, if reform is to help the Federal Government adapt to a rapidly changing world, its primary objectives must be a Government that is:

- Citizen-centered—not bureaucracy-centered;
- Results-oriented—not process-oriented; and
- Market-based—actively promoting, not stifling, innovation and competition.

Making Government Citizen-Centered

Flatten the Federal Hierarchy: The first priority of the President's Government reform initiatives is to make Government citizen-centered. This means ensuring that there is as little distance as possible between citizens and decision-makers. In an effort to get closer to the customer, American businesses have increasingly replaced old, hierarchical organizations with flatter, more entrepreneurial ones. To shrink the distance between citizens and Cabinet members, the Administration will flatten the Federal hierarchy, reduce the number of layers in the upper echelon of Government, and use work force planning to help agencies redistribute higher-level positions to front-line, service delivery positions that interact with citizens. These actions should make the Federal Government more nimble and responsive.

Use the Internet to Create a Citizen-Centric Government: The explosive growth of the Internet has transformed the relationship between customers and businesses. It is also transforming the relationship between citizens and Government. By enabling individuals to penetrate the Federal bureaucracy to access information and transact business, the Internet promises to shift power from a handful of leaders in Washington to individual citizens. The President believes that providing access to information and services is only the first step in e-Government. In order to make Government truly "citizen-centered," agencies will have to work together to consolidate similar functions around the needs of citizens and businesses. Citizen-centered Government will use the Internet to bring about transformational change: agencies will conduct transactions with the public along secure web-enabled systems that use portals to link common applications and protect privacy, which will give citizens the ability to go online and interact with their Government—and with their State and local governments that provide similar information and services—around citizen preferences and not agency boundaries.

Create an E-Government Fund: The budget provides $10 million in 2002 as the first installment of a fund that will grow to a total of $100 million over three years to support interagency electronic Government (e-gov) initiatives. OMB would control the allocation of the fund to support information technology (IT) projects in the e-gov arena.

Projects that operate across agency boundaries will build off the foundation of essential

building blocks, including: *www.firstgov.gov*, the online information portal that provides 24 hours a day/seven days a week access to all Government online information, searchable by topic rather than by agency; and the development of a Public Key Infrastructure to implement digital signatures that are accepted across agencies for secure online communications.

The fund would also further the Administration's ability to implement the Government Paperwork Elimination Act of 1998, which calls upon agencies to provide the public with optional use and acceptance of electronic information, services and signatures, when practicable, by October 2003. In recent years, funding for interagency e-gov initiatives has been obtained, as authorized by law, by passing the hat among agencies to support activities of interagency councils. The e-gov fund would supplement the "pass the hat" funds and accelerate the improvements this Administration will make on IT spending within agencies through capital planning, to provide for interagency e-gov innovation.

Making Government Results-Oriented

Link Budget and Management Decisions to Performance: In addition to making Government more citizen-centered, reform must also make it more results-oriented. This requires establishing accountability systems that allow citizens to judge whether effective performance is taking place. It also is time that funds flow to programs that work—not those that are ineffective or have completed their mission. Government must be results-oriented—guided not by process, but by performance. There comes a time when programs must be judged by how well they achieve their purpose. Where we find success, we should reward it, and make it the standard. Government action that fails in its purpose must be reformed or ended. Congress created a good framework with the Government Performance and Results Act and the Chief Financial Officers Act, which can help us determine program success. The Results Act requires agencies to set performance goals and measure their actual results—a way for the public to determine whether they are accomplishing their stated missions. But setting goals and measuring their achievement is only a start. As stewards of the public purse, we must do more to show how funding levels relate to performance levels.

To date, the Government's progress in linking budgets and performance has been slow. Bringing about a much better linkage will be a priority of this Administration. As a first step, department and agency heads have been directed to ensure that their 2002 performance plans, which will be submitted to Congress in April, also include performance goals for Presidential initiatives and for Government-wide and agency-specific reform proposals. Making good on those promises—not just making those promises—will be the standard of this Administration.

Ensure Financial Accountability: The President believes that Government must ensure a basic level of financial accountability that is expected of any company in the private sector. He is holding agency heads accountable for obtaining and maintaining unqualified or "clean" opinions on their agencies' annual financial statement audits. More than 60 percent of agencies currently receive "clean" opinions; heads of the agencies without clean opinions are expected to attack vigorously the long-standing difficulties and record-keeping deficiencies that prevent clean opinions.

Reduce Erroneous Payments to Beneficiaries and Other Recipients of Government Funds: Financial accountability also requires assurance that Federal funds are being used for their intended purpose and not being distributed due to error. The General Accounting Office identified $19.1 billion in erroneous payments made last year, and noted that the amount could be considerably larger. The President will direct agency heads to develop more rigorous controls to ensure that Federal funds reach their intended recipients at the correct time and in the proper amount. Further, he will promote the use of recovery audits and other steps to ensure that overpayments are avoided or returned to the Government.

Use Capital Planning to Improve Performance: In addition, agencies invest more than $40 billion in IT to support some 26,000 information systems. Technology now affects virtually every aspect of the way the Government operates, and IT investments are extremely important to the success of e-Gov-

ernment and transforming the delivery of information and services. Agencies will use capital planning and investment control to promote security and privacy in the use of technology and guide the results of this investment, and ultimately for ensuring results from other capital assets as well. The Government can thus achieve outcomes from IT investments that match agency strategic priorities and provide real benefits for the American people.

Eliminate Duplicative and Ineffective Programs: The Federal Government spends billions of dollars on programs that are obsolete, ineffective, or better performed by the private sector. In addition to obsolete programs, there are many overlapping or duplicative programs and agencies. The Administration will seek to redeploy resources from old priorities to make room for new Administration priorities by reducing or eliminating funding for programs that have completed their mission or that are redundant, ineffective, or obsolete.

Expand the Use of Performance-Based Contracts: Because of expanding missions and declining staff, agencies are increasingly relying on outside contractors. The Federal Government spends roughly $110 billion a year in service contracts. The increase in the amount and type of contracting creates the opportunity and the necessity to move toward performance-based contracting—where the focus is on the results to be achieved, rather than the manner in which the work is performed or the "effort" involved. Agencies will convert Federal service contracts to performance-based contracts wherever possible, saving an estimated $8.3 billion over five years.

Incorporate Successful Private Sector Reforms Throughout the Federal Workforce: The current civil service system does not do all it should to reward achievement and encourage excellence. It also limits the ability of agency heads to compete successfully for high-skilled senior talent. The Administration will look for opportunities to incorporate successful private sector reforms throughout the Federal work force.

Making Government Market-Based

Make e-Procurement the Government-Wide Standard: Businesses are experiencing significant cost savings by shifting their procurement to the Internet. Savings are derived from reduced transaction-processing costs, more efficient inventory management, and greater competition from vendors lowering prices. In an effort to lower costs and utilize market-based solutions wherever possible, agencies will move to paperless contracting processes in which information from one step of the process is automatically fed to the next step in the process, eliminating the need to re-enter data. Procurement data will be linked to financial systems, making the payment process both faster and more accurate; disposal of excess Government property will become more effective. Agencies will also expand use of "share-in-savings" approaches, in which market incentives reward contractors who can retain a portion of any savings that result from innovation.

Open Government Activities to Competition: Opening Government functions to competition to the fullest extent possible is the best way to ensure market-based pricing and encourage innovation, while saving the taxpayers an estimate $14 billion over five years. Since 1998, agencies have been required to inventory their activities that are commercial in nature—that is functions that are not "so intimately related to the public interest as to require performance by Federal Government employees." In the past, agencies have found that when competitive bidding is employed, they experience average savings of 30 percent when a private contractor wins, and 20 percent when the pubic sector wins. Consequently, for these activities, agencies will use an open, competitive process (considering both public and private bidders) to choose the providers. The competitive process will be studied so that it can be streamlined.

X. SUMMARY TABLES

Table S–1. President's 10-Year Plan

(In billions of dollars)

	Total 2002–2011
Baseline surplus	5,644
Social Security surplus	2,591
Tax relief	1,620
Additional needs, debt service, and contingencies:	
Helping Hand and Medicare modernization	153
Additional spending and other	20
Debt service	417
Contingencies	842
Memorandum:	
Maximum debt retirement	2,017

Table S–2. Proposed Policy
(In billions of dollars)

	Estimate											Totals	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
Baseline unified surplus	284	283	334	387	440	516	586	652	726	814	904	1,961	5,644
Policy changes:													
Tax package	–*	–31	–66	–99	–133	–170	–193	–209	–226	–243	–250	–499	–1,620
Discretionary programs	–1	–7	–1	–1	–5	–2	1	–2	–3	–7	–2	–16	–30
Helping Hand and Medicare modernization	–3	–11	–13	–15	–13	–13	–13	–16	–17	–20	–24	–64	–153
Other mandatory initiatives and offsets	....	–2	–2	7	2	4	–1	–*	*	*	*	9	9
Debt service	–*	–2	–6	–12	–19	–28	–39	–53	–68	–86	–105	–66	–417
Total, policy changes	–3	–52	–88	–120	–167	–209	–245	–280	–314	–355	–380	–636	–2,210
Debt reduction and reserve for contingencies [1]	281	231	246	268	273	307	341	372	412	459	524	1,325	3,433

* $500 million or less.

[1] The actual amount of annual debt retirement will vary depending upon the availability of eligible redeemable debt, and the use, if any, of the contingency reserve.

Table S–3. Budget Summary[1]

(In billions of dollars)

	2001	Estimate 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total 2002–2011
Outlays:												
Discretionary	649	692	708	727	751	769	787	811	834	861	880	7,819
Mandatory:												
Social Security	430	451	474	498	524	553	584	618	656	698	744	5,800
Medicare	216	226	239	252	279	292	314	336	358	384	419	3,100
Medicaid	129	142	153	166	181	196	214	232	253	275	298	2,109
Other mandatory	226	259	263	267	285	284	296	312	323	336	349	2,973
Subtotal, mandatory	1,001	1,079	1,128	1,183	1,269	1,325	1,407	1,498	1,591	1,693	1,810	13,982
Net interest	206	188	175	161	144	127	108	90	69	45	20	1,127
Total outlays	1,856	1,959	2,012	2,071	2,164	2,221	2,302	2,398	2,493	2,600	2,709	22,929
Receipts	2,137	2,190	2,258	2,339	2,436	2,528	2,643	2,770	2,905	3,059	3,233	26,362
Unified surplus	281	231	246	268	273	307	341	372	412	459	524	3,433
On-budget surplus/contingency	124	60	53	57	36	55	71	84	109	136	181	842
Off-budget surplus	157	171	193	211	237	252	270	287	303	323	343	2,591

[1] The actual amount of annual debt retirement will vary depending upon the availability of eligible redeemable debt, and the use, if any, of the contingency reserve.

Table S–4. Bridge to 2002 Proposed Discretionary Spending

(Budget authority, dollar amounts in billions)

2001 Enacted	635.0
Department of Defense:	
Additions:	
Campaign initiatives	4.4
Pay, inflation, health, and other	9.8
Non-Department of Defense:	
Additions:	
Campaign initiatives	10.4
Pay and programmatic increases	9.6
National Emergency Reserve	5.6
Technical adjustments (contract renewals, new advances, etc.)	6.3
Offsets:[1]	
Non-repetition of earmarked funding	–4.3
Non-repetition of one-time funding	–4.1
Program decreases	–12.1
2002 Total Discretionary	660.7
2002 Discretionary Baseline	660.7
Increase over 2001 Enacted	25.7
Percentage Increase	4.0%

[1] The final distribution of offsets has yet to be determined.

Table S–5. Discretionary Policy Initiatives

(Budget authority in billions of dollars)

	2002 Estimate	Totals	
		2002–2006	2002–2011
Strengthen and Reform Education	3.5	19.1	41.4
Revitalize National Defense	4.4	39.6	95.4
Champion Compassionate Conservatism	0.7	4.8	10.8
Assist Americans with Disabilities	0.3	1.4	3.0
Combat Crime and Drug Abuse	1.3	6.1	12.1
Create a Comprehensive Energy Policy and Protect the Environment	1.4	6.5	12.8
Strengthen Families	0.2	1.3	2.5
Invest in Health Care	2.9	33.7	78.8
Reform the Immigration System	0.2	1.2	2.1
Promote Volunteerism	*	0.5	1.2
Total, Discretionary Initiatives	**14.8**	**114.2**	**260.1**

* $50 million or less

Table S–6. Discretionary Budget Authority by Agency

(Dollar amounts in billions)

Agency	Actual			Estimate		Change: 2001 to 2002	Average Growth: 1998 to 2002
	1998	1999	2000	2001	2002		
Agriculture	15.8	16.5	17.1	19.4	17.9	–1.6	3.1%
Commerce [1]	4.2	5.4	8.7	5.1	4.8	–0.4	3.3%
Defense	259.8	274.6	287.3	296.3	310.5	14.2	4.6%
Education	29.8	28.8	29.4	39.9	44.5	4.6	10.6%
Energy	16.8	17.9	17.8	19.7	19.0	–0.7	3.1%
Health and Human Services	37.1	41.5	45.5	53.9	56.7	2.8	11.2%
Housing and Urban Development [2]	20.1	22.5	21.2	28.5	30.4	1.9	10.9%
Interior	8.1	8.0	8.5	10.2	9.8	–0.4	5.0%
International Affairs Programs [3]	18.2	22.3	22.7	21.9	23.1	1.2	6.2%
Justice	17.6	18.4	18.8	20.9	19.9	–1.0	3.1%
Labor	10.7	11.0	8.8	11.9	11.3	–0.6	1.3%
Transportation	15.0	12.9	14.5	18.4	16.3	–2.1	2.0%
Treasury	11.5	12.8	12.5	14.0	14.7	0.7	6.4%
Veterans Affairs	18.9	19.2	20.9	22.4	23.4	1.0	5.5%
Corps of Engineers	4.2	4.1	4.1	4.5	3.9	–0.6	–1.7%
Environmental Protection Agency	7.4	7.6	7.6	7.8	7.3	–0.5	–0.2%
Federal Emergency Management Agency	2.4	2.9	3.9	2.4	2.0	–0.5	–5.4%
National Aeronautics and Space Administration	13.6	13.7	13.6	14.3	14.5	0.3	1.5%
National Science Foundation	3.4	3.7	3.9	4.4	4.5	0.1	6.8%
Small Business Administration	0.7	0.8	0.9	0.3	0.5	0.3	–6.9%
Social Security Administration	5.5	5.5	5.6	6.0	6.4	0.3	3.9%
Legal Services Corporation	0.3	0.3	0.3	0.3	0.3	0.0	3.8%
National Endowment for the Arts	0.1	0.1	0.1	0.1	0.1	0.0	1.7%
National Endowment for the Humanities	0.1	0.1	0.1	0.1	0.1	0.0	2.2%
Smithsonian Institution	0.4	0.4	0.4	0.5	0.5	0.0	5.3%
Other Agencies	10.2	11.4	10.4	11.7	12.8	1.1	5.8%
National Emergency Reserve	....	....	....	....	5.6	5.6	....
Total	531.9	562.2	584.4	635.0	660.7	25.6	5.6%

[1] 2000 Commerce data includes funding for Census 2000.

[2] 1998 and 1999 have been adjusted for reclassification of Federal Housing Administration receipts.

[3] International Affairs Program totals do not include P.L. 480 Title II food aid, which is included in the totals for Agriculture; 1999 data is also adjusted to remove $18.2 billion in one-time funding for the International Monetary Fund.

Table S–7. Proposed Discretionary Spending Limits

(In billions of dollars)

		Estimate				
	2001	2002	2003	2004	2005	2006
Original Balanced Budget Act Limits:						
Budget authority	542.0	552.8	1.9	2.1	2.2	2.4
Outlays	595.8	594.7	35.9	2.0	2.2	2.4
Spending in excess of Original Caps:						
Budget authority	93.0	107.9	....	....	....	....
Outlays	53.3	97.0	....	....	....	....
Actual and Proposed Discretionary Spending Limits: [1]						
Budget authority	635.0	660.7	678.6	697.4	716.8	736.9
Outlays	649.1	691.7	708.4	726.9	750.8	768.6
Proposed Spending Limits by Category:						
Conservation Category						
Budget authority	....	1.5	1.5	1.5	1.6	1.6
Outlays	....	1.3	1.4	1.5	1.5	1.6
Highway Category						
Budget authority	....	....	....	....	....	....
Outlays	....	28.5	30.4	....	....	....
Mass Transit Category						
Budget authority	....	1.3	1.4	....	....	....
Outlays	....	5.3	5.5	....	....	....
Other Discretionary Category						
Budget authority	....	657.8	675.6	695.9	715.2	735.3
Outlays	....	656.6	671.1	725.4	749.3	767.0
Total, Proposed Discretionary Spending Limits:						
Budget authority	....	660.7	678.6	697.4	716.8	736.9
Outlays	....	691.7	708.4	726.9	750.8	768.6

[1] Data for 2001 is a current estimate and is not a proposed discretionary spending limit.

Table S–8. Mandatory Proposals

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Totals 2002–2006	Totals 2002–2011
Immediate Helping Hand Prescription Drug Plan and Medicare Reform	2,500	11,200	12,900	14,800	12,500	12,800	13,400	15,500	16,700	19,700	23,500	64,200	153,000
Charity and other initiatives:													
Education:													
Expand Teacher Loan Forgiveness	....	11	5	5	5	6	6	6	6	7	7	32	64
HHS:													
Child Welfare Preventative Services	....	30	158	192	196	200	200	200	200	200	200	776	1,776
Education and Training for Older Foster Children	....	9	46	58	60	60	60	60	60	60	60	233	533
Charity State Tax Credit, TANF outlays	....	....	400	300	150	....	....	–200	–200	–200	–250	850	....
Treasury:													
Tax credits	....	81	2,129	1,674	2,619	2,987	3,424	3,423	3,385	3,342	3,302	9,490	26,366
Total, other initiatives	....	131	2,738	2,229	3,030	3,253	3,690	3,489	3,451	3,409	3,319	11,381	28,739
Offsets:													
Agriculture:													
FCIC: Reduce reimbursement rate from 24.5% to 20%	....	–61	–76	–81	–84	–90	–96	–101	–106	–119	–126	–392	–940
Long-term recreation fee program with four-year reauthorization	....	....	–25	–13	–2	–2	28	13	1	....	....	–42	....
Energy:													
ANWR, lease bonuses	....	....	....	–1,200	....	....	....	....	....	....	....	–1,200	–1,200
HHS:													
Medicaid savings proposals	....	–606	–1,071	–1,450	–1,844	–1,906	–1,965	–2,024	–2,098	–2,170	–2,242	–6,876	–17,374
Interior:													
Use recreation fees to reduce NPS backlog (NPS/FWS/BLM)	....	....	–39	–2	49	80	134	92	44	....	....	88	358
ANWR, lease bonuses:													
State of Alaska's share:													
Receipts	....	....	....	–1,201	–1	–1	–1	–1	–1	–1	–1	–1,203	–1,208
Expenditure	....	....	....	1,201	1	1	1	1	1	1	1	1,203	1,208
Federal share	....	....	....	–1	–1	–1	–1	–1	–1	–1	–1	–3	–8
Veterans Affairs:													
OBRA Extenders:													
IRS income verification on means tested veterans and survivors benefits	....	....	....	–6	–6	–6	–6	–6	–6	–6	–6	–18	–48
Round-down disability benefits to nearest dollar after COLA	....	....	–15	–37	–60	–85	–107	–133	–163	–188	–208	–197	–996

Table S–8. Mandatory Proposals—Continued

(In millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Totals 2002–2006	Totals 2002–2011
Limit VA pensions to Medicaid recipients in nursing homes (includes Medicaid offsets)	....	....	....	....	....	....	....	....	–127	–138	–149	....	–414
Continue current housing loan fees	....	....	....	....	....	....	....	....	–275	–280	–286	....	–841
Eliminate "Vendee" loan program	....	19	–9	–13	–21	–26	–29	–34	–38	–36	–41	–50	–228
Army Corps of Engineers:													
Recreation user fee increase	....	–10	–5	–5	–5	....	....	....	....	....	....	–25	–25
FCC:													
Shift spectrum auction deadlines and promote clearing	....	2,600	1,000	–5,100	–2,000	–4,000	....	....	....	....	....	–7,500	–7,500
Analog spectrum lease fee	....	–198	–200	–200	–200	–200	–175	–150	–75	–25	....	–998	–1,423
FDIC:													
State Bank Examination fees:													
Reduction in FDIC outlays	....	–92	–97	–101	–106	–112	–118	–123	–129	–136	–143	–508	–1,157
Additional governmental receipts (net of income offsets)	....	–70	–74	–76	–80	–84	–88	–92	–96	–101	–105	–384	–866
FEMA:													
Phase out subsidized premiums for non-primary residences in the flood insurance program	....	–12	–40	–92	–194	–410	–415	–419	–423	–423	–423	–748	–2,851
Reform flood insurance program for repetitive loss properties that experience chronic flooding	....	–32	–65	–65	–65	–65	–65	–65	–65	–65	–65	–292	–617
OPM:													
Extend Higher Agency Contributions to the Retirement Fund	....	....	–315	–372	–326	–286	–241	–191	–137	–76	–22	–1,299	–1,966
Total, offsets	....	1,538	–1,031	–8,814	–4,945	–7,193	–3,144	–3,234	–3,694	–3,764	–3,817	–20,444	–38,096
Total, mandatory proposals	**2,500**	**12,869**	**14,607**	**8,215**	**10,585**	**8,860**	**13,946**	**15,755**	**16,457**	**19,345**	**23,002**	**55,136**	**143,641**
Outlays	2,500	12,939	14,681	8,291	10,665	8,944	14,034	15,847	16,553	19,446	23,107	55,520	144,507
Revenues (net of income offsets)	....	–70	–74	–76	–80	–84	–88	–92	–96	–101	–105	–384	–866

Table S–9. Effect of Proposals on Receipts

(In millions of dollars)

	Estimate											Totals	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002–2006	2002–2011
President's Tax Plan presented to Congress on February 8th:													
Increase the child tax credit[1]	....	–1,238	–7,506	–11,455	–16,347	–20,963	–25,296	–26,277	–27,098	–27,876	–28,602	–57,509	–192,658
Create new 10-percent bracket	....	–5,678	–13,847	–21,932	–29,849	–37,407	–39,734	–40,281	–40,602	–40,685	–40,603	–108,713	–310,618
Reduce individual income tax rates	....	–11,793	–21,047	–33,493	–42,306	–57,299	–63,741	–65,454	–67,020	–68,550	–69,963	–165,938	–500,666
Reduce the marriage penalty	....	–1,423	–4,801	–7,700	–10,243	–12,549	–13,983	–14,501	–15,008	–15,509	–16,033	–36,716	–111,750
Provide charitable deduction for nonitemizers	....	–482	–1,690	–2,963	–4,448	–6,065	–6,988	–7,087	–7,306	–7,500	–7,642	–15,648	–52,171
Permit tax-free and penalty-free withdrawals from IRAs for charitable contributions	....	–53	–181	–195	–210	–225	–241	–258	–277	–299	–322	–864	–2,261
Raise the cap on corporate charitable contributions	....	–85	–136	–136	–143	–149	–159	–169	–178	–202	–222	–649	–1,579
Increase and expand education savings accounts	....	–3	–25	–88	–204	–373	–593	–829	–1,037	–1,206	–1,287	–693	–5,645
Permanently extend the R&E tax credit	....	....	....	–1,056	–3,431	–5,414	–6,542	–7,388	–8,020	–8,567	–9,158	–9,901	–49,576
Phase out death tax	–169	–6,008	–10,534	–11,998	–14,804	–16,840	–20,682	–30,477	–42,651	–54,721	–57,872	–60,184	–266,587
Total, President's Tax Plan presented to Congress on February 8th[1]	–169	–26,763	–59,767	–91,016	–121,985	–157,284	–177,959	–192,721	–209,197	–225,115	–231,704	–456,815	–1,493,511
Additional tax incentives[1,2]	–14	–2,246	–5,183	–7,995	–11,113	–12,579	–14,758	–15,985	–16,986	–17,835	–18,567	–39,116	–123,247
One-year extension of provisions expiring in 2001[2]	....	–1,614	–1,356	–169	–93	–65	–37	–21	–18	–18	–18	–3,297	–3,409
Tax reduction[1,2]	–183	–30,623	–66,306	–99,180	–133,191	–169,928	–192,754	–208,727	–226,201	–242,968	–250,289	–499,228	–1,620,167

[1] The proposal has both receipt and outlay effects. Only the receipt effect is shown here; the outlay effect is shown in Table S–8.

[2] Net of income offsets.

Table S–10. Budget Authority Totals by Function

(In billions of dollars)

Function	2000 Actual	Estimate 2001	2002	2003	2004	2005	2006
National defense [1]	304.1	310.6	324.8	333.2	342.2	351.8	361.6
International affairs	22.6	18.6	23.0	22.9	23.2	23.9	24.9
General science, space, and technology	19.3	20.9	22.2	22.6	23.1	23.6	24.3
Energy	–1.2	–0.8	–0.4	–0.3	–0.6	–0.5	–0.3
Natural resources and environment	25.0	28.8	26.6	26.7	27.5	27.7	27.7
Agriculture	33.7	29.5	15.8	14.1	14.1	14.4	14.9
Commerce and housing credit	13.6	–8.8	8.5	7.7	6.0	6.1	6.4
On-Budget	(9.9)	(–13.6)	(5.9)	(5.8)	(5.1)	(5.2)	(5.4)
Off-Budget	(3.7)	(4.8)	(2.5)	(1.9)	(0.9)	(0.9)	(1.0)
Transportation	55.4	61.6	61.2	63.3	65.0	66.7	68.5
Community and regional development	12.8	10.4	10.0	10.1	10.3	10.5	10.9
Education, training, employment, and social services	55.2	70.3	80.0	80.5	82.6	85.5	88.6
Health	161.5	181.4	204.9	229.8	246.4	254.4	268.8
Medicare	200.6	219.0	229.9	242.2	255.5	282.8	296.2
Income security	242.0	262.2	274.5	284.9	296.8	309.4	318.2
Social security	412.0	435.4	456.4	479.0	503.7	530.3	559.3
On-Budget	(13.3)	(12.1)	(13.6)	(14.5)	(15.5)	(16.3)	(17.3)
Off-Budget	(398.8)	(423.2)	(442.8)	(464.5)	(488.3)	(514.0)	(542.0)
Veterans benefits and services	45.5	47.6	51.6	53.2	55.3	57.4	59.5
Administration of justice	26.7	30.0	30.9	31.5	33.3	34.3	35.3
General government	13.5	16.3	16.6	16.6	18.3	17.4	17.9
Net interest	223.2	206.5	188.3	175.3	161.2	144.2	126.6
On-Budget	(283.0)	(275.4)	(264.4)	(260.7)	(257.1)	(251.5)	(246.7)
Off-Budget	(–59.8)	(–68.9)	(–76.1)	(–85.4)	(–95.9)	(–107.3)	(–120.1)
Allowances	....	....	6.0	5.7	6.3	6.4	6.6
Undistributed offsetting receipts	–42.6	–48.0	–49.0	–60.2	–70.5	–58.7	–62.2
On-Budget	–34.9	–39.8	–40.5	–51.1	–60.6	–48.0	–50.8
Off-Budget	–7.6	–8.3	–8.5	–9.2	–9.9	–10.7	–11.4
Total	**1,823.1**	**1,891.5**	**1,981.6**	**2,038.7**	**2,099.6**	**2,187.7**	**2,253.5**
On-Budget	(1,488.1)	(1,540.6)	(1,620.8)	(1,666.8)	(1,716.2)	(1,791.0)	(1,842.1)
Off-Budget	(335.0)	(350.9)	(360.7)	(371.9)	(383.4)	(396.8)	(411.4)

[1] Estimates for 2003–2006 reflect inflated 2002 levels, not a policy judgment.

Table S–11. Outlay Totals by Function

(In billions of dollars)

Function	2000 Actual	Estimate 2001	2002	2003	2004	2005	2006
National defense [1]	294.5	299.1	318.9	321.6	332.6	346.8	353.8
International affairs	17.2	17.5	21.1	21.0	21.1	21.2	22.0
General science, space, and technology	18.6	19.7	21.2	22.0	22.7	23.2	23.8
Energy	–1.1	–0.6	–0.3	–0.1	–0.7	–0.6	–0.5
Natural resources and environment	25.0	27.6	27.8	27.5	27.8	28.2	28.6
Agriculture	36.6	26.1	18.6	14.9	13.9	14.0	14.5
Commerce and housing credit	3.2	–0.7	6.9	4.6	3.5	3.4	2.1
On-Budget	(1.2)	(–3.3)	(3.8)	(5.1)	(4.2)	(4.7)	(4.0)
Off-Budget	(2.0)	(2.6)	(3.1)	(–0.5)	(–0.7)	(–1.3)	(–1.8)
Transportation	46.9	51.1	54.7	56.2	58.5	61.0	63.0
Community and regional development	10.6	10.7	11.3	11.1	10.6	10.3	9.8
Education, training, employment, and social services	59.3	64.7	76.2	80.2	81.1	83.3	86.1
Health	154.5	175.5	201.3	224.8	243.6	251.1	265.4
Medicare	197.1	219.3	229.8	241.9	255.7	282.6	295.9
Income security	247.9	262.9	275.7	285.7	295.7	308.6	317.0
Social security	409.4	433.6	454.7	477.1	501.6	528.0	556.8
On-Budget	(13.3)	(12.1)	(13.6)	(14.5)	(15.5)	(16.3)	(17.3)
Off-Budget	(396.2)	(421.5)	(441.1)	(462.6)	(486.1)	(511.7)	(539.5)
Veterans benefits and services	47.1	45.3	51.1	52.8	55.0	59.8	59.2
Administration of justice	27.8	29.1	31.6	34.4	34.3	34.0	34.9
General government	13.4	17.0	16.5	16.6	18.3	17.3	17.6
Net interest	223.2	206.5	188.3	175.3	161.2	144.2	126.6
On-Budget	(283.0)	(275.4)	(264.4)	(260.7)	(257.1)	(251.5)	(246.7)
Off-Budget	(–59.8)	(–68.9)	(–76.1)	(–85.4)	(–95.9)	(–107.3)	(–120.1)
Allowances	....	....	2.7	4.3	5.0	6.0	6.3
Undistributed offsetting receipts	–42.6	–48.0	–49.0	–60.2	–70.5	–58.7	–62.2
On-Budget	–34.9	–39.8	–40.5	–51.1	–60.6	–48.0	–50.8
Off-Budget	–7.6	–8.3	–8.5	–9.2	–9.9	–10.7	–11.4
Total	**1,789.0**	**1,856.3**	**1,959.3**	**2,011.6**	**2,071.0**	**2,163.6**	**2,220.6**
On-Budget	(1,458.2)	(1,509.4)	(1,599.8)	(1,644.1)	(1,691.4)	(1,771.3)	(1,814.5)
Off-Budget	(330.8)	(346.9)	(359.5)	(367.5)	(379.7)	(392.3)	(406.1)

[1] Estimates for 2003–2006 reflect inflated 2002 levels, not a policy judgment.

Table S–12. Discretionary Budget Authority by Function

(In billions of dollars)

Function	2000 Actual	Estimate 2001	2002	2003	2004	2005	2006
National defense [1]	300.8	311.3	324.9	333.4	342.8	352.4	362.3
International affairs	23.5	22.7	23.9	23.8	24.5	25.2	25.9
General science, space, and technology	19.2	20.8	22.0	22.5	23.1	23.6	24.3
Energy	2.7	3.1	2.8	2.7	3.0	3.1	3.2
Natural resources and environment	24.6	28.8	26.4	26.5	27.2	27.4	27.4
Agriculture	4.7	5.1	4.8	5.2	5.2	5.3	5.5
Commerce and housing credit	5.2	0.7	–0.3	–0.2	–0.5	–0.6	–0.6
Transportation	15.2	19.0	15.9	16.3	16.8	17.2	17.7
Community and regional development	13.8	11.0	10.1	10.4	10.6	10.9	11.2
Education, training, employment, and social services	44.4	61.2	65.3	65.6	67.6	69.5	71.5
Health	33.8	38.9	41.0	45.5	47.0	48.5	50.0
Medicare	3.0	3.4	3.4	3.4	3.5	3.6	3.8
Income security	29.9	39.5	42.8	44.5	46.2	48.0	49.4
Social security	3.2	3.4	3.5	3.5	3.6	3.7	3.8
On-Budget	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Off-Budget	(3.2)	(3.4)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)
Veterans benefits and services	20.9	22.5	23.5	23.4	24.1	24.8	25.5
Administration of justice	27.1	29.9	29.7	31.6	31.4	32.3	33.3
General government	12.4	14.0	14.8	14.8	15.2	15.6	16.0
Allowances	....	....	6.0	5.7	6.3	6.4	6.6
Total	**584.4**	**635.0**	**660.7**	**678.6**	**697.4**	**716.8**	**736.9**
On-Budget	(581.2)	(631.6)	(657.2)	(675.1)	(693.8)	(713.1)	(733.1)
Off-Budget	(3.2)	(3.4)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)

* $50 million or less.

[1] Estimates for 2003–2006 reflect inflated 2002 levels, not a policy judgment.

Table S–13. Discretionary Outlays by Function

(In billions of dollars)

Function	2000 Actual	Estimate					
		2001	2002	2003	2004	2005	2006
National defense [1]	295.0	299.6	319.1	321.8	333.1	347.4	354.4
International affairs	21.3	24.1	24.5	24.4	24.6	24.6	25.3
General science, space, and technology	18.6	19.6	21.1	21.9	22.6	23.2	23.8
Energy	3.0	3.1	3.0	3.0	2.9	3.1	3.1
Natural resources and environment	25.0	27.7	27.8	27.4	27.5	28.0	28.4
Agriculture	4.7	5.5	5.5	5.2	5.2	5.3	5.5
Commerce and housing credit	4.5	1.8	0.3	–*	–0.4	–0.6	–0.6
Transportation	44.8	48.9	52.9	54.2	56.6	59.1	61.1
Community and regional development	11.4	11.4	11.7	11.8	11.4	11.3	11.1
Education, training, employment, and social services	48.9	55.5	61.8	65.4	66.0	67.6	69.6
Health	30.0	34.0	38.6	42.2	45.4	47.2	48.7
Medicare	3.0	3.3	3.4	3.4	3.5	3.6	3.7
Income security	41.3	45.4	46.9	47.7	48.3	49.1	50.2
Social security	3.4	3.6	3.5	3.5	3.6	3.7	3.8
On-Budget	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Off-Budget	(3.4)	(3.6)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)
Veterans benefits and services	20.8	22.3	23.4	23.4	24.1	24.8	25.5
Administration of justice	26.8	28.9	30.9	34.0	32.3	32.2	33.0
General government	12.4	14.5	14.7	14.8	15.0	15.4	15.8
Allowances	....	....	2.7	4.3	5.0	6.0	6.3
Total	**614.8**	**649.1**	**691.7**	**708.4**	**726.9**	**750.8**	**768.6**
On-Budget	(611.4)	(645.5)	(688.2)	(704.9)	(723.3)	(747.1)	(764.8)
Off-Budget	(3.4)	(3.6)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)

* $50 million or less.

[1] Estimates for 2003–2006 reflect inflated 2002 levels, not a policy judgment.

Table S–14 Comparison of Economic Assumptions

(Calendar years)

	Projection											Average 2002–2011
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Real GDP:[1]												
February Blue Chip	2.1	3.5	3.2	3.5	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.4
CBO January	2.4	3.4	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.1	3.1	3.1
2002 Budget	2.4	3.3	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.2
GDP Price Index:[1]												
February Blue Chip	2.1	1.9	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
CBO January	2.3	2.1	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
2002 Budget	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer Price Index:[1]												
February Blue Chip	2.6	2.4	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
CBO January	2.8	2.8	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.6
2002 Budget	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Unemployment rate:[2]												
February Blue Chip	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.6
CBO January	4.4	4.5	4.5	4.7	4.8	4.9	5.0	5.1	5.2	5.2	5.2	4.9
2002 Budget	4.4	4.6	4.5	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6
Interest rates:[2]												
91-day Treasury bills:												
February Blue Chip	4.8	4.9	5.6	5.5	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.3
CBO January	4.9	5.0	5.1	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
2002 Budget	5.3	5.6	5.6	5.6	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.2
10-year Treasury notes:												
February Blue Chip	5.2	5.5	5.9	5.9	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.9
CBO January	4.9	5.3	5.5	5.6	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.7
2002 Budget	5.4	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7

[1] Year-over-year percent change; real GDP and its price index are chain-weighted; CPI is all-urban. The Blue Chip's out-year forecast (2003–2011) is from its October 2000 long-run extension.

[2] Annual averages, percent.

Table S–15. Baseline Category Totals

(In billions of dollars)

	2001	Estimate 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Totals 2002–2011
Outlays:												
Discretionary:												
Defense function	300	311	319	330	341	351	360	370	381	392	403	3,557
Nondefense	349	373	388	396	405	416	427	439	450	462	475	4,232
Subtotal, discretionary	649	685	707	726	746	766	788	809	831	854	878	7,789
Mandatory:												
Social Security	430	451	474	498	524	553	584	618	656	698	744	5,800
Medicare	216	226	239	252	271	279	301	320	342	365	396	2,990
Medicaid	129	143	154	167	182	198	216	234	254	276	300	2,125
Other mandatory	223	246	247	257	281	286	293	309	322	334	348	2,923
Subtotal, mandatory	998	1,066	1,113	1,175	1,258	1,317	1,393	1,482	1,574	1,674	1,787	13,839
Net interest:												
Interest earnings.	....	....	....	....	–3	–14	–32	–56	–85	–119	–159	–468
Other	206	187	170	150	128	113	101	92	85	78	74	1,177
Subtotal, net interest	206	187	170	150	125	99	69	36	*	–40	–85	710
Total outlays	1,853	1,938	1,990	2,050	2,129	2,182	2,250	2,327	2,405	2,487	2,579	22,338
Receipts	2,137	2,221	2,324	2,438	2,569	2,698	2,836	2,979	3,131	3,302	3,483	27,981
Unified surplus	284	283	334	387	440	516	586	652	726	814	904	5,644
On-budget surplus	127	112	141	176	203	263	315	363	422	490	560	3,045
Off-budget surplus	157	171	194	211	237	253	272	289	304	324	344	2,599

* $500 million or less.

Note: Baseline assumes earnings on cash balances, which represent the return on investing excess Treasury cash in the private sector. The size of the balances that would be invested would vastly overwhelm existing institutional arrangements for investing Treasury operating balances, raising both operational and policy issues.

Table S–16. Federal Government Financing and Debt

(In billions of dollars)

	Actual 2000	Estimate 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financing:												
Unified budget surplus	236	281	231	246	268	273	307	341	372	412	459	524
On-budget surplus/reserve for contingencies [1]	86	124	60	53	57	36	55	71	84	109	136	181
Off-budget surplus	150	157	171	193	211	237	252	270	287	303	323	343
Means of financing other than borrowing from the public:												
Premiums paid (–) on buybacks of Treasury securities [2]	–6	–10	....	....	....	....	....	....	....	....	....	....
Changes in: [3]												
Treasury operating cash balance	4	3	....	....	....	....	....	....	....	....	....	....
Checks outstanding, deposit funds, etc. [4]	3	–*	–1	....	....	....	....	....	....	....	....	....
Seigniorage on coins	2	2	2	2	2	2	2	2	2	2	2	2
Less: Net financing disbursements:												
Direct loan financing accounts	–22	–39	–4	–17	–18	–17	–16	–16	–16	–16	–16	–15
Guaranteed loan financing accounts	4	–1	–1	1	–*	–*	1	1	1	1	1	1
Total, means of financing other than borrowing from the public	–13	–45	–4	–15	–16	–15	–14	–13	–13	–13	–13	–13
Total, amount available to repay debt held by the public	223	236	227	232	252	257	294	328	359	399	446	511
Change in debt held by the public: [5 6]												
Change in debt held by the public (gross)	–223	–236	–227	–232	–252	–257	–294	–328	–181	–125	–71	–50
Less change in excess balances	....	....	....	....	....	....	....	....	–178	–274	–375	–461
Change in debt held by the public (net)	–223	–236	–227	–232	–252	–257	–294	–328	–359	–399	–446	–511
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	5,601	5,610	5,640	5,697	5,752	5,822	5,878	5,918	6,120	6,396	6,750	7,139
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation [7]	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15	–15
Adjustment for discount and premium [8]	6	6	6	6	6	6	6	6	6	6	6	6
Total, debt subject to statutory limitation [9]	5,592	5,600	5,630	5,687	5,743	5,813	5,868	5,908	6,110	6,386	6,740	7,129
Debt Outstanding, End of Year:												
Gross Federal debt: [10]												
Debt issued by Treasury	5,601	5,610	5,640	5,697	5,752	5,822	5,878	5,918	6,120	6,396	6,750	7,139
Debt issued by other agencies	28	27	27	26	25	24	23	21	21	21	20	20
Total, gross Federal debt	5,629	5,637	5,666	5,723	5,777	5,846	5,901	5,939	6,141	6,417	6,770	7,159
Held by:												
Debt securities held as assets by Government accounts	2,219	2,463	2,719	3,007	3,314	3,640	3,988	4,355	4,737	5,138	5,562	6,001
Debt securities held as assets by the public: [6]												
Debt held by the public (gross)	3,410	3,174	2,947	2,715	2,463	2,206	1,912	1,585	1,404	1,279	1,208	1,158
Less excess balances	....	....	....	....	....	....	....	....	–178	–452	–827	–1,288
Debt held by the public (net) [11]	3,410	3,174	2,947	2,715	2,463	2,206	1,912	1,585	1,226	827	381	–130

* $500 million or less.

[1] The actual amount of annual debt retirement will vary depending upon the availability of eligible redeemable debt, and the use, if any, of the contingency reserve.

[2] This table includes estimates for Treasury buybacks of outstanding securities only through 2001. These estimates assume that Treasury will buy back $35 billion (face value) of securities in 2001. The premiums paid on buybacks are based on experience to date and the interest rates in the economic assumptions.

[3] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing a deficit and therefore would also have a positive sign.

[4] Besides checks outstanding and deposit funds, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[5] Indian tribal funds that are owned by the Indian tribes and held and managed in a fiduciary capacity by the Government on the tribes' behalf were reclassified from trust funds to deposit funds as of October 1, 1999. Their holdings of Treasury securities were accordingly reclassified from debt held by Government accounts to debt held by the public, which affected the "change in debt held by the public" without affecting borrowing or the repayment of debt.

[6] The amount of the unified budget surplus that is available to repay debt held by the public is estimated to be more than the amount of debt that is available to be redeemed in 2008 and subsequent years. The difference is assumed to be held as "excess balances." ("Excess" means in excess of the amounts held for operational and programmatic purposes.) The "debt held by the public (gross)" is the amount of Federal debt securities held by the public. The "debt held by the public (net)" is the "debt held by the public (gross)" less the "excess balances."

[7] Consists primarily of Federal Financing Bank debt.

[8] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[9] The statutory debt limit is $5,950 billion.

[10] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[11] At the end of 2000, the Federal Reserve Banks held $511 billion of Federal securities and the rest of the public held $2,899 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

XI. LIST OF CHARTS AND TABLES

XI. LIST OF CHARTS AND TABLES

LIST OF CHARTS

LIST OF CHARTS—Continued

LIST OF TABLES

Superintendent of Documents Publications Order Form

Charge your order. It's easy! VISA MasterCard

☐ YES, please send me the following indicated publication:

____ copies of the ***A Blueprint for New Beginnings--A Responsible Budget for America's Priorities*** S/N 041–001–00560–9 at $21.00 each.

☐ **Please send me your Free Catalog** of hundreds of bestselling Government books.

The total cost of my order is $ ________. (International customers please add 25%.) Prices include regular domestic postage and handling and are good through 7/01. After this date, please call Order and Information Desk at 202–512–1800 to verify prices.

____
(Company or personal name) (Please type or print)

____
(Additional address/attention line)

____
(Street address)

____
(City, State, ZIP Code)

( ) ______________________________
(Daytime phone including area code)

Please Choose Method of Payment:

☐ Check payable to the Superintendent of Documents

☐ GPO Deposit Account ☐☐☐☐☐☐☐–☐

☐ VISA or MasterCard Account

☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

____
(Credit card exp. date)

Thank you for your order!

____
(Signature)

Mail To: Superintendent of Documents, Government Printing Office, Washington, DC 20402–9325